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Fiscal Notes Prepared by the Missouri State Auditor's Office in 2008

<u>Fiscal Note Number</u>	<u>Date Received</u>	<u>Fiscal Note Description</u>	<u>Date Submitted to Secretary of State</u>
08-01	01/16/08	Proposed Statutory Initiative Petition - Protect Missouri Employee Paychecks from Politics	Withdrawn by Petitioner
08-02	01/17/08	Proposed Initiative Petition - The Quality Home Care Act	02/20/08
08-03	01/17/08	Proposed Statutory Initiative Petition - Renewable Energy Standard	Withdrawn by Petitioner
08-04	01/17/08	Proposed Statutory Initiative Petition - Renewable Energy Standard	Withdrawn by Petitioner
08-05	01/17/08	Proposed Statutory Initiative Petition - Renewable Energy Standard	Withdrawn by Petitioner
08-06	01/17/08	Proposed Statutory Initiative Petition - Renewable Energy Standard	Withdrawn by Petitioner
08-07	01/18/08	Proposed Statutory Initiative Petition - Prevention of Coerced and Unsafe Abortions Act	02/20/08
08-08	01/18/08	Proposed Constitutional Initiative Petition - Missouri Tax Fairness Initiative	Withdrawn by Petitioner
08-09	01/22/08	Proposed Statutory Initiative Petition - Renewable Energy Standard	02/22/08
08-10	01/22/08	Proposed Statutory Initiative Petition - Renewable Energy Standard	02/22/08
08-11	01/22/08	Proposed Statutory Initiative Petition - Renewable Energy Standard	02/22/08
08-12	01/22/08	Proposed Statutory Initiative Petition - Renewable Energy Standard	02/22/08
08-13	01/22/08	Proposed Statutory Initiative Petition - Renewable Energy Standard	02/22/08
08-14	01/25/08	Proposed Constitutional Initiative Petition - Missouri Tax Fairness Initiative	02/25/08
08-15	01/25/08	Proposed Statutory Initiative Petition - The Schools First Elementary and Secondary Education Funding Initiative	02/25/08
08-16	01/28/08	Proposed Statutory Initiative Petition - Protect Missouri Employee Paychecks from	Withdrawn by

		Politics	Petitioner
08-17	01/31/08	Proposed Statutory Initiative Petition - Protect Missouri Employee Paychecks from Politics	03/04/08
08-18	02/07/08	Proposed Statutory Initiative Petition - The Cover all Kids Act	03/04/08
08-19	02/15/08	Proposal to Abolish the Board of Police	Rejected by Sec of State
08-20	02/21/08	Proposed Constitutional Initiative Petition - Selection of Judges	Withdrawn by Petitioner
08-21	02/28/08	Proposed Constitutional Initiative Petition - Selection of Judges	Withdrawn by Petitioner
08-22	03/04/08	Proposal to Abolish the Board of Police	Rejected by Sec of State
08-23	03/06/08	Proposed Constitutional Initiative Petition - Article III, Section 38	Rejected by Sec of State
08-24	03/06/08	Proposed Constitutional Initiative Petition - Article III, Section 38	Rejected by Sec of State
08-25	03/06/08	Proposed Constitutional Initiative Petition - Article III, Section 38	Rejected by Sec of State
08-26	03/10/08	Proposed Constitutional Initiative Petition - Selection of Judges	04/08/08
08-27	03/13/08	Proposed Constitutional Initiative Petition - Article III, Section 38	Rejected by Sec of State
08-28	03/13/08	Proposed Constitutional Initiative Petition - Article III, Section 38	Rejected by Sec of State
08-29	03/13/08	Proposed Constitutional Initiative Petition - Article III, Section 38	Rejected by Sec of State
08-30	03/20/08	Proposed Constitutional Initiative Petition - Article III, Section 38	04/21/08
08-31	03/20/08	Proposed Constitutional Initiative Petition - Article III, Section 38	04/21/08
08-32	03/20/08	Proposed Constitutional Initiative Petition - Article III, Section 38	04/21/08
08-33	03/20/08	Proposed Constitutional Initiative Petition - Article III, Section 38	Rejected by Sec of State
08-34	03/20/08	Proposed Constitutional Initiative Petition - Article III, Section 38	Rejected by Sec of State
08-35	03/20/08	Proposed Constitutional Initiative Petition - Article III, Section 38	Rejected by Sec of State
08-36	06/17/08	Senate Joint Resolution No. 45 - Financing of Stormwater Control Projects	07/10/08
08-37	11/06/08	Proposed Constitutional Initiative Petition - Civil Rights	12/05/08
08-38	11/06/08	Proposed Constitutional Initiative Petition - Article VI, Section 21	Rejected by Sec of State
08-39	11/06/08	Proposed Constitutional Initiative Petition - Article I, Sections 26, 27, and 28	Rejected by Sec of State
08-40	11/25/08	Proposed Statutory Initiative Petition - Automatic Ticketing with Red-Light Camera	Withdrawn by Petitioner
08-41	12/01/08	Proposed Constitutional Initiative Petition - Article VI, Section 21	Rejected by Sec of State
08-42	12/01/08	Proposed Constitutional Initiative Petition - Article VI, Section 21	12/31/08
08-43	12/01/08	Proposed Constitutional Initiative Petition - Article I, Sections 26, 27, and 28	Rejected by Sec of State

08-44	12/01/08	Proposed Constitutional Initiative Petition - Article I, Sections 26, 27, and 28	Rejected by Sec of State
08-45	12/02/08	Proposed Constitutional Initiative Petition - Article IV, Section 17	12/31/08
08-46	12/09/08	Proposed Constitutional Initiative Petition - Article III, Section 38	Rejected by Sec of State
08-47	12/17/08	Proposed Constitutional Initiative Petition - Article I, Sections 26, 27, and 28	01/20/09
08-48	12/17/08	Proposed Constitutional Initiative Petition - Article I, Sections 26, 27, and 28	01/20/09
08-49	12/17/08	Proposed Constitutional Initiative Petition - Article I, Sections 26, 27, and 28	Rejected by Sec of State
08-50	12/17/08	Proposed Constitutional Initiative Petition - Article I, Sections 26, 27, and 28	01/20/09
08-51	12/17/08	Proposed Constitutional Initiative Petition - Article I, Sections 26, 27, and 28	Rejected by Sec of State
08-52	12/23/08	Proposed Constitutional Initiative Petition - Article III, Section 38	01/20/09
08-53	12/30/08	Proposed Constitutional Initiative Petition - Save Our Secret Ballot Initiative	Withdrawn by Petitioner



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**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-02)**

Subject

Initiative petition from Alphonso Mayfield. (Received January 17, 2008)

Date

February 6, 2008

Description

This proposal would enact the "The Quality Home Care Act."

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Boone County**, **Callaway County**, **Clay County**, **Greene County**, **Jackson County**, **St. Charles County**, the **City of Cape Girardeau**, the **City of Columbia**, the **City of Kansas City**, the **City of Kirksville**, the **City of St. Joseph**, the **City of St. Louis**, the **City of Springfield**, the **City of West Plains**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** assumed that any potential costs arising from this proposal can be absorbed with existing resources.

Officials from the **Department of Economic Development** indicated the proposal should have no administrative or fiscal impact on their department.

The **Department of Elementary and Secondary Education** indicated this proposal does not impact their department or local schools.

Officials from the **Department of Higher Education** indicated that this initiative would have no direct, foreseeable impact on their department.

The **Department of Health and Senior Services** assumes the proposed initiative petition would be voted on by Missouri citizens during the Fall of 2008. If passed, the department assumes the Council would not be appointed until February or March of 2009 and Council activities would not begin until the Spring of 2009. Therefore, FY 2009 costs have been adjusted to reflect only three months worth of council activities.

The majority of the fiscal impact for the Missouri Quality Homecare Council is contained in the components in sections 3 and 4 of this proposal. DHSS assumes that the Council would solicit contracts for many of the duties assigned to the Council under Section 4.

Section 3.1

The Council would be assigned to DHSS. Oversight is limited to budgeting and reporting requirements only.

Section 3.2

The Council will be composed of 11 members. Though the proposal does not specify how often the Council will meet, for the purposes of this fiscal estimate, DHSS assumes the Council will meet six times per year. At a cost of \$160 per member per meeting (standard allowance for board/commission members), the estimated cost of council meetings would total \$10,560 annually. (11 members X \$160 X 6 meetings per year = \$10,560)

The costs are estimated to be \$10,560.

Section 4.1

The Council is to assess the size and stability of the homecare workforce in Missouri. DHSS assumes this will require a contracted study of the workforce and the issues surrounding the homecare industry. DHSS cannot determine the cost of this component because the petition suggests the Council will determine the scope of the evaluation.

The costs are estimated to be greater than \$100,000.

Section 4.2

The Council is tasked with recruiting eligible individuals to serve as personal care attendants. DHSS assumes this will include job fairs, coordination with high schools and colleges, and public service announcements to recruit individuals. Because the cost of this component will be greatly influenced by the type and the amount of recruitment initiated by the Council, and because control rests solely with the Council, DHSS cannot estimate the fiscal impact of this section.

The costs for this component is unknown.

Section 4.3

The Council will provide voluntary training for personal care attendants (PCAs). DHSS assumes the training will be provided via a contracted training agency. Based on recent training arranged for staff, DHSS estimates the cost per person would be approximately \$450. In FY 2007, approximately 10,000 consumers received care at some point by a PCA and the demand for PCA services continues to grow. Due to the high turnover rate and the fact that many consumers have multiple PCAs, the exact number of PCAs who will seek training is unknown. For fiscal note purposes, the Division of Senior and Disability Services (DSDS) will assume up to 10,000 PCAs would seek training. It is unclear if the PCAs will be required to pay for all or part of their training. If the Council opted to contract training services with a contracted training agency, costs would be estimated at \$0 to \$4,500,000 (\$450 x 10,000 PCAs).

The costs are estimated at \$0 to \$4,500,000

Section 4.4

The Council will recommend minimum qualifications for PCAs to the department. DHSS assumes there would be minimal fiscal impact for this component.

Section 4.5

The Council will establish a statewide list of eligible, available personal care attendants. DHSS assumes the list will be compiled via a computer database system built and maintained by an information technology contractor hired by the Council. Because the Council will have control over the design, structure, and use of the database, the components needed for the database remain unknown. The Office of Administration, Information Technology Services Division estimate the cost of this database to be greater than \$100,000.

The costs are estimated to be greater than \$100,000.

Section 4.6

The Council is to provide referrals of eligible and available PCAs to vendors and consumers. The Council would determine the exact nature of the referral system. Therefore, DHSS cannot estimate the cost of the referral system; however because of the complexity and the demand for PCA services, DHSS assumes it will be greater than \$100,000.

The costs are estimated to be greater than \$100,000.

Section 4.7

The section requires reporting of suspected abuse and neglect of consumers. DHSS estimates there would be no fiscal impact for this component, as all persons in caregiving roles for eligible adults are already mandated reporters.

The costs are estimated to be \$0.

Section 4.8

The Council is to make recommendations regarding wages or rates to be paid to PCAs. DHSS assumes that any proposed rate increase would be submitted to the Governor and General Assembly. DHSS assumes the Council will make recommendations to increase the wages of PCAs, which would result in an increased cost to the state to reimburse for consumer directed services.

The costs are estimated to be greater than \$100,000.

Section 4.9 and 4.10

DHSS assumes there would be no fiscal impact for these sections.

The costs are estimated to be \$0.

Section 4.11

This section enables the Council to independently perform functions necessary for the operations of the Council. DHSS is unable to estimate the cost of operations of the Council until the structure, organization, and operating model of the Council is determined. Therefore the cost estimate, which would be subject to appropriation, is assumed to be greater than \$100,000. The Council will require an unknown amount of additional staff.

The costs are estimated to be greater than \$100,000.

Division of Regulations and Licensure (DRL)

Section 4.5

This part of the initiative petition requires the Missouri Quality Homecare Council to maintain a statewide list of eligible available personal care attendants. The Council must ensure that all those on the list are registered with the Family Care Safety Registry (FCSR) and are not listed on any of the background check lists in the FCSR (exceptions allowed for those with a good cause waiver).

The Family Care Safety Registry (FCSR) currently has 27,046 personal care attendants registered in the database. The department has no way of determining how many, if any, additional personal care attendants would be required to register with the FCSR as a result of this proposal.

The Family Care Safety Registry estimates that one Health Program Representative (HPR) II and .5 Office Support Assistant (Keyboarding) (OSA) are required to process 12,000 registrations each year. Depending upon how many additional personal care attendants enrolled with the FCSR as a result of this proposal, the Division of Regulation and Licensure may need additional staff to meet the increased workload.

The costs are estimated at \$0 to Unknown.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** indicated the proposal will have no impact on their department.

Officials from the **Department of Natural Resources** indicated they would not anticipate a direct fiscal impact from this proposal.

The **Department of Corrections** indicated no impact on their agency.

Officials from the **Department of Labor and Industrial Relations** indicated this petition has no fiscal impact on their department.

Officials from the **Department of Revenue** indicated this petition will have no impact on their department.

The **Department of Public Safety** indicated they are unable to determine the impact of this proposal. They stated that they do not feel there would be a direct cost to their department, however, if this should increase medical costs and thus create a medical insurance premium change, they would defer to the Missouri Consolidated Health Care Plan for a response.

The **Department of Social Services** indicated passage of the initiative petition will not have a fiscal impact on the MO HealthNet Division. Services and funding for consumer-directed services are provided by the Department of Health and Senior Services (DHSS). The Department assumes any increases in services or rates would be included in the DHSS budget and funding would be appropriated to DHSS. The State Highway Patrol, Department of Social Services-Children's Division, Department of Mental Health, DHSS and vendors must cooperate to assess on an ongoing basis existing mechanisms for preventing abuse and neglect of consumers in the home care setting and recommend improvements to those agencies and the General Assembly. The Children's Division indicated it can do this with existing resources and does not see a significant fiscal impact from this requirement.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal will not result in additional costs or savings to their agencies.

Officials from the **Missouri House of Representatives** indicated they anticipate no fiscal impact from this petition.

The **Department of Conservation** indicated no fiscal impact would be expected to their agency as a result of this proposal.

Officials from the **Office of State Courts Administrator** indicated this initiative petition should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there would be no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

Officials from the **State Treasurer's Office** indicated this proposal has no fiscal impact on their office.

Officials from **Jackson County** indicated that no fiscal impact on their entity is apparent.

Officials from the **City of West Plains** indicated that this measure does not appear to have a significant direct fiscal impact on their city.

The **Rockwood R-VI School District** forwarded the petition to the **Special School District** for their review and response. The Special School District indicated this petition would not have any fiscal impact on their organization.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated this proposal would have no direct fiscal impact on their organization.

Officials from the **University of Missouri** indicated this petition would have no identifiable fiscal impact on their organization.

Mark R. Reading and Ryan Burson provided fiscal impact information related to the proposal which is summarized as follows:

It is estimated that the Quality Home Care Council will cost state government \$265,284 annually, with no cost to local government.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Transportation**, **Boone County**, **Callaway County**, **Clay County**, **Greene County**, **St. Charles County**, the **City of Cape Girardeau**, the **City of Columbia**, the **City of Kansas City**, the **City of Kirksville**, the **City of St. Joseph**, the **City of St. Louis**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **St. Louis Community College**.

Fiscal Note Summary

The exact cost of this proposal to state governmental entities is unknown, but is estimated to exceed \$510,560 annually. Additional costs for training are possible. Matching federal funds, if available, could reduce state costs. It is estimated there would be no costs or savings to local governmental entities.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-07)**

Subject

Initiative petition from Paula Talley regarding a proposed new chapter to Title XXXVI of the Missouri Revised Statutes. (Received January 18, 2008)

Date

February 7, 2008

Description

This proposal would add a new chapter to Title XXXVI of the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Boone County**, **Jackson County**, **St. Louis County**, the **City of Columbia**, the **City of Kansas City**, the **City of St. Louis**, the **City of Springfield**, **Hannibal School District #60**, **Rockwood R-VI School District**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated the proposal would not directly affect their office. However, they assumed that because this proposal has the potential to be the subject of state and federal litigation, potential costs are unknown.

Officials from the **Department of Economic Development** assume no fiscal or administrative impact from the proposal.

The **Department of Elementary and Secondary Education** indicated this proposal would not impact their department or local schools.

Officials from the **Department of Higher Education** indicated no direct, foreseeable impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated the proposal will have no impact on their department.

Officials from the **Department of Natural Resources** indicated they would not anticipate a direct fiscal impact from this proposal.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** stated the proposal does not have a fiscal impact on their department.

The **Department of Revenue** indicated the proposal would not have a fiscal impact on their department.

The **Department of Public Safety** indicated there is no fiscal impact for the director's office.

The **Department of Social Services** indicated there is no fiscal impact on their department.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to their agencies.

The **Department of Conservation** indicated no fiscal impact is expected to their agency as a result of this proposal.

The **Office of State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact on their agency as a result of the proposal.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from **Jackson County** indicated no fiscal impact on their entity is apparent.

Officials from the **Rockwood R-VI School District** indicated this proposal will not result in any costs or savings to the district.

The **University of Missouri** indicated no identifiable fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Missouri House of Representatives**, the **Department of Transportation**, **Boone County**, **St. Louis County**, the **City of Columbia**, the **City of Kansas City**, the **City of St. Louis**, the **City of Springfield**, **Hannibal School District #60**, **St. Louis Community College**.

Fiscal Note Summary

It is estimated this proposal will have no costs or savings to state or local governmental entities.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-09)**

Subject

Initiative petition from Henry Robertson regarding a proposed amendment to Chapter 393 of the Missouri Revised Statutes. (Received January 22, 2008)

Date

February 11, 2008

Description

This proposal would create the "Renewable Energy Standard" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Public Service Commission**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of Kirksville**, the **City of St. Louis**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** assumes that this proposal creates no fiscal impact for their office.

Officials from the **Department of Economic Development/Public Service Commission** estimate an annual cost of \$315,641 to the Public Service Commission Fund as result of this proposal.

The department indicated that this petition would require additional PSC rules including, setting a minimum generation amount, allowing retail rates to increase by 1%, assessing penalties for non-compliance, and allowing recovery outside of rate cases for costs incurred (and pass through of benefits to customers of any savings achieved).

Further, they indicated that there will be additional costs for regulatory oversight, investigation, and litigation. The proposed legislation would require constant monitoring and auditing of the electric utilities cost of compliance for prudence as these costs were allowed to be recovered in customer's rates outside a rate case.

In addition, the department indicated that since the Commission is also required to select a program for tracking and verifying the trading of Renewable Energy Credits (REC), staff would also be required to review and monitor the selected program.

The department indicated this proposal is likely to lead to higher electric bills for a majority of Missourians. The proposed language limits the increase in rates to 1% but it is not clear if it is 1% per year or in total.

The department estimates that that following would be needed as a result of this proposal: one policy analyst to continually monitor electric utility compliance; one additional attorney and one additional paralegal to manage an estimated 10 to 15 additional litigation matters annually, plus provision of legal advice and input to technical staff; acquisition of consulting services with a cost of \$50,000 to \$100,000 a year to track and verify trading of renewable energy credits for each of the four Investor Owned Utilities (IOUs) and the Association of Missouri Electric Cooperatives (AMEC)—totaling up to a maximum of 60 hours per month at hourly fees of \$100 - \$150.

The **Department of Elementary and Secondary Education** indicated this proposal would not impact their department or local schools.

Officials from the **Department of Higher Education** indicated no direct, foreseeable impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated that all utilities for the department are paid by the Office of Administration-Facilities Management and Design and Construction. They indicated that the proposal will have no impact on their department.

Officials from the **Department of Natural Resources** indicated this proposal would require the department to establish by rule a certification process for electricity generated from renewable resources that are used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal. Sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource and that meet established criteria, would be certified by the department by rule. The proposal requires the Public Service Commission to consult with the department in promulgating a rule to establish the Renewable Energy Standard. If not excused by the Public Service Commission for reasons beyond the control of the electric utility or if the maximum average retail rate increase is reached, the electric utility must pay penalties to the department that will be used to purchase renewable energy credits necessary for the electric utility to be in compliance with the targets. Excess funds after the purchase of the credits, would be used by the department's Energy Center solely for energy efficiency or renewable energy projects.

The increased use of renewable resources could provide economic opportunities for the agricultural and business sectors, improve energy reliability by diversifying the state's energy supplies, lower peak demands on the electric grid if distributed renewable generation is used, and improve environmental quality if fossil fuel combustion is displaced.

The department assumes one (1) FTE Planner II would be needed to implement the new responsibilities created by this proposal:

(1) Establish by rule a certification process for electricity generated from renewable resources used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal (section 393.1030.4). The department assumes it would establish certification criteria in consultation with a stakeholder group as part of the framework of rule promulgation consisting of electric utilities, Public Service Commission staff, environmental organizations, renewable energy industries, interested members of the public and other experts. On an ongoing basis, the Planner position would provide technical assistance to utilities, review and analysis of certification criteria due to technological advances and provide information to the public about the certification process and criteria. Criteria would include analysis of fuel type, technology and the environmental impacts of the generating facility (including adverse air, water or land use impacts and impacts associated with gathering of generation feedstocks). For renewable resources that are used with fossil fuels, calculations to determine the

electrical output generated from only the portion of renewable resources would be developed.

(2) Certify by rule sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource (393.1025.4). The Planner position would conduct ongoing analysis and review of new energy sources and if they meet the criteria established by the rule described above, the additional resource would be certified by rule as eligible to count toward compliance with the Renewable Energy Standard.

(3) Receive penalties for non-compliance that are at least twice the average market value of renewable energy credits and use the funds to purchase renewable energy credits necessary to bring the electric utility into compliance with the Renewable Energy Standard. Use excess funds after the purchase of such renewable energy credits for energy efficiency or renewable energy projects (393.1030.2(b)). The Planner position would establish a tracking and reporting system to account for funds received, determine the number of renewable energy credits to purchase in consultation with the Public Service Commission, purchase the credits on behalf of the appropriate electric utility and report the purchases to the utility and Public Service Commission. This position would insure that excess funds are used solely for energy efficiency and renewable energy projects.

(4) Participate in rule promulgation (as required by the proposal) with the Public Service Commission to prescribe the renewable energy portfolio requirements. Consult with the Public Service Commission on the selection of a program to track and verify trading of renewable energy credits (393.1030.1).

Overall, the department estimated an annual cost of \$79,542 for this proposal.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** stated the proposal does not have a fiscal impact on their department.

The **Department of Revenue** indicated the proposal would have no impact on their department.

The **Department of Public Safety** indicated they are unable to determine the cost of new energy sources and therefore unable to determine the possible fiscal impact of these petitions.

The **Department of Social Services** indicated there is no direct fiscal impact to their department. However, they did indicate that their offices throughout the state are customers of utility companies. They estimate that passage of this petition would probably increase energy costs for those buildings. In recent years, authority for leasing

state office space and paying utility bills has been transferred to the Office of Administration (OA). Therefore the department defers to OA to estimate the cost, if any.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to their agencies. Further, they indicated that if the provisions of this petition were to be approved by voters, there would not be a fiscal impact to the state as far as increases or decreases in state revenues. However, there could be a budget impact in that the costs the state pays to providers of electricity to state owned facilities could increase. According to the data warehouse, the state expended \$35,231,773 for electricity in fiscal year 2007.

The fiscal year 2008 fiscal impact is \$362,887 based on the following assumptions:

1. Level expenditures for fiscal year 2008 as fiscal year 2007;
 2. Electric providers increase charges by the 1% allowed in the petitions;
 3. 3% inflation factor.
- $$\$35,231,773 * .01 * 1.03 = \$362,887$$

The **House of Representatives** indicated the proposed initiative has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that the fiscal impact expected to their agency as a result of this proposal is uncertain.

The **Office of State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact on their agency as a result of the proposal.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the

purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from the **City of Jefferson** do not anticipate any fiscal impact as a result of this petition.

Officials from the **City of St. Louis** indicated this initiative petition would result in a significant fiscal impact to the city. The city states that this proposal would cause operating costs for the City of St. Louis to rise by an undetermined amount.

The City of St. Louis (City Offices, Street Department, and Lambert International Airport, excluding Water Department and Metropolitan Police Department) spent an estimated \$8,832,052 on electricity in fiscal year 2007. Currently in Missouri, electricity costs can fluctuate anywhere from 5 to 10 cents per kilowatt-hour on average. By following the proposed ballot language, the city estimates that this cost per kilowatt-hour could immediately rise to anywhere in the neighborhood of 10 cents per kilowatt-hour for wind power or 20 to 24 cents per kilowatt-hour for solar power. If, for example, the cost per kilowatt-hour were to rise to the current average level for solar power, the city would immediately realize an increase of nearly 3 ½ times its current electricity costs. This would cause our yearly average expenditure for electricity to jump from roughly \$8.8 million to almost \$31 million.

City officials indicated that some estimates say the average household uses around 11,000 kilowatt-hours a year costing around \$1,500 per year. If this unknown energy cost were to rise to the current average cost of solar power the average household would see their yearly electricity expenditures almost double to nearly \$2,900. This rapid cost increase would be extremely destructive to the average St. Louis City household.

City officials stated that the unknown cost increase could prove to be devastating to the entire economy of St. Louis City. They estimate that these unknown costs could become a crippling expense to their local government, businesses, and citizens.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the proposal will have no direct fiscal impact on their organization.

The **University of Missouri** indicated they are unable to determine the financial impact of this initiative petition.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Transportation**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Kansas City**, the **City of Kirksville**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **St. Louis Community College**.

Fiscal Note Summary

The estimated direct cost to state governmental entities is \$395,183. It is estimated there are no direct costs or savings to local governmental entities. However, indirect costs may be incurred by state and local governmental entities if the proposal results in increased electricity retail rates.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-10)**

Subject

Initiative petition from Henry Robertson regarding a proposed amendment to Chapter 393 of the Missouri Revised Statutes. (Received January 22, 2008)

Date

February 11, 2008

Description

This proposal would create the "Renewable Energy Standard" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Public Service Commission**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of Kirksville**, the **City of St. Louis**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** assumes that this proposal creates no fiscal impact for their office.

Officials from the **Department of Economic Development/Public Service Commission** estimate an annual cost of \$470,141 to the Public Service Commission Fund as result of this proposal.

The department indicated that this petition would require additional PSC rules including, setting a minimum generation amount, allowing retail rates to increase by 1%, assessing penalties for non-compliance, and allowing recovery outside of rate cases for costs incurred (and pass through of benefits to customers of any savings achieved).

Further, they indicated that there will be additional costs for regulatory oversight, investigation, and litigation. The proposed legislation would require constant monitoring and auditing of the electric utilities cost of compliance for prudence as these costs were allowed to be recovered in customer's rates outside a rate case.

In addition, the department indicated that since the Commission is also required to select a program for tracking and verifying the trading of Renewable Energy Credits (REC), staff would also be required to review and monitor the selected program.

The department indicated this proposal is likely to lead to higher electric bills for a majority of Missourians. The proposed language limits the increase in rates to 1% but it is not clear if it is 1% per year or in total.

The department estimates that that following would be needed as a result of this proposal: one policy analyst to continually monitor electric utility compliance; one additional attorney and one additional paralegal to manage an estimated 10 to 15 additional litigation matters annually, plus provision of legal advice and input to technical staff; acquisition of consulting services with a cost of \$50,000 to \$250,000 a year to track and verify trading of renewable energy credits for each of thirty smaller municipalities—totaling up to a maximum of 150 hours per month at hourly fees of \$100 - \$250.

The **Department of Elementary and Secondary Education** indicated this proposal would not impact their department or local schools.

Officials from the **Department of Higher Education** indicated no direct, foreseeable impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated that all utilities for the department are paid by the Office of Administration-Facilities Management and Design and Construction. They indicated that the proposal will have no impact on their department.

Officials from the **Department of Natural Resources** indicated this proposal would require the department to establish by rule a certification process for electricity generated from renewable resources that are used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal. Sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource and that meet established criteria, would be certified by the department by rule. The proposal requires the Public Service Commission to consult with the department in promulgating a rule to establish the Renewable Energy Standard. If not excused by the Public Service Commission for reasons beyond the control of the electric utility or if the maximum average retail rate increase is reached, the electric utility must pay penalties to the department that will be used to purchase renewable energy credits necessary for the electric utility to be in compliance with the targets. Excess funds after the purchase of the credits, would be used by the department's Energy Center solely for energy efficiency or renewable energy projects.

The increased use of renewable resources could provide economic opportunities for the agricultural and business sectors, improve energy reliability by diversifying the state's energy supplies, lower peak demands on the electric grid if distributed renewable generation is used, and improve environmental quality if fossil fuel combustion is displaced.

The department assumes one (1) FTE Planner II would be needed to implement the new responsibilities created by this proposal:

(1) Establish by rule a certification process for electricity generated from renewable resources used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal (section 393.1030.4). The department assumes it would establish certification criteria in consultation with a stakeholder group as part of the framework of rule promulgation consisting of electric utilities, Public Service Commission staff, environmental organizations, renewable energy industries, interested members of the public and other experts. On an ongoing basis, the Planner position would provide technical assistance to utilities, review and analysis of certification criteria due to technological advances and provide information to the public about the certification process and criteria. Criteria would include analysis of fuel type, technology and the environmental impacts of the generating facility (including adverse air, water or land use impacts and impacts associated with gathering of generation feedstocks). For renewable resources that are used with fossil fuels, calculations to determine the

electrical output generated from only the portion of renewable resources would be developed.

(2) Certify by rule sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource (393.1025.4). The Planner position would conduct ongoing analysis and review of new energy sources and if they meet the criteria established by the rule described above, the additional resource would be certified by rule as eligible to count toward compliance with the Renewable Energy Standard.

(3) Receive penalties for non-compliance that are at least twice the average market value of renewable energy credits and use the funds to purchase renewable energy credits necessary to bring the electric utility into compliance with the Renewable Energy Standard. Use excess funds after the purchase of such renewable energy credits for energy efficiency or renewable energy projects (393.1030.2(b)). The Planner position would establish a tracking and reporting system to account for funds received, determine the number of renewable energy credits to purchase in consultation with the Public Service Commission, purchase the credits on behalf of the appropriate electric utility and report the purchases to the utility and Public Service Commission. This position would insure that excess funds are used solely for energy efficiency and renewable energy projects.

(4) Participate in rule promulgation (as required by the proposal) with the Public Service Commission to prescribe the renewable energy portfolio requirements. Consult with the Public Service Commission on the selection of a program to track and verify trading of renewable energy credits (393.1030.1).

(5) In addition to the duties prescribed in the proposal, the department assumes it would provide technical assistance and information to utilities and the public related to each electric utility's creation of a standard rebate program for solar electric systems purchased by customers. The rebate would be a \$2.00 per watt rebate on systems up to 25 kilowatts.

Overall, the department estimated an annual cost of \$79,542 for this proposal.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** stated the proposal does not have a fiscal impact on their department.

The **Department of Revenue** indicated the proposal would have no impact on their department.

The **Department of Public Safety** indicated they are unable to determine the cost of new energy sources and therefore unable to determine the possible fiscal impact of these petitions.

The **Department of Social Services** indicated there is no direct fiscal impact to their department. However, they did indicate that their offices throughout the state are customers of utility companies. They estimate that passage of this petition would probably increase energy costs for those buildings. In recent years, authority for leasing state office space and paying utility bills has been transferred to the Office of Administration (OA). Therefore the department defers to OA to estimate the cost, if any.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to their agencies. Further, they indicated that if the provisions of this petition were to be approved by voters, there would not be a fiscal impact to the state as far as increases or decreases in state revenues. However, there could be a budget impact in that the costs the state pays to providers of electricity to state owned facilities could increase. According to the data warehouse, the state expended \$35,231,773 for electricity in fiscal year 2007.

The fiscal year 2008 fiscal impact is \$362,887 based on the following assumptions:

1. Level expenditures for fiscal year 2008 as fiscal year 2007;
2. Electric providers increase charges by the 1% allowed in the petitions;
3. 3% inflation factor.
 $\$35,231,773 * .01 * 1.03 = \$362,887$

The **House of Representatives** indicated the proposed initiative has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that the fiscal impact expected to their agency as a result of this proposal is uncertain.

The **Office of State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact on their agency as a result of the proposal.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of

ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from the **City of Jefferson** do not anticipate any fiscal impact as a result of this petition.

Officials from the **City of St. Louis** indicated this initiative petition would result in a significant fiscal impact to the city. The city states that this proposal would cause operating costs for the City of St. Louis to rise by an undetermined amount.

The City of St. Louis (City Offices, Street Department, and Lambert International Airport, excluding Water Department and Metropolitan Police Department) spent an estimated \$8,832,052 on electricity in fiscal year 2007. Currently in Missouri, electricity costs can fluctuate anywhere from 5 to 10 cents per kilowatt-hour on average. By following the proposed ballot language, the city estimates that this cost per kilowatt-hour could immediately rise to anywhere in the neighborhood of 10 cents per kilowatt-hour for wind power or 20 to 24 cents per kilowatt-hour for solar power. If, for example, the cost per kilowatt-hour were to rise to the current average level for solar power, the city would immediately realize an increase of nearly 3 ½ times its current electricity costs. This would cause our yearly average expenditure for electricity to jump from roughly \$8.8 million to almost \$31 million.

City officials indicated that some estimates say the average household uses around 11,000 kilowatt-hours a year costing around \$1,500 per year. If this unknown energy cost were to rise to the current average cost of solar power the average household would see their yearly electricity expenditures almost double to nearly \$2,900. This rapid cost increase would be extremely destructive to the average St. Louis City household.

City officials stated that the unknown cost increase could prove to be devastating to the entire economy of St. Louis City. They estimate that these unknown costs could become a crippling expense to their local government, businesses, and citizens.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the proposal will have no direct fiscal impact on their organization.

The **University of Missouri** indicated they are unable to determine the financial impact of this initiative petition.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Transportation**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Kansas City**, the **City of Kirksville**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **St. Louis Community College**.

Fiscal Note Summary

The estimated direct cost to state governmental entities is \$549,683. It is estimated there are no direct costs or savings to local governmental entities. However, indirect costs may be incurred by state and local governmental entities if the proposal results in increased electricity retail rates.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-11)**

Subject

Initiative petition from Henry Robertson regarding a proposed amendment to Chapter 393 of the Missouri Revised Statutes. (Received January 22, 2008)

Date

February 11, 2008

Description

This proposal would create the "Renewable Energy Standard" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Public Service Commission**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of Kirksville**, the **City of St. Louis**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** assumes that this proposal creates no fiscal impact for their office.

Officials from the **Department of Economic Development/Public Service Commission** estimate an annual cost of \$367,141 to the Public Service Commission Fund as result of this proposal.

The department indicated that this petition would require additional PSC rules including, setting a minimum generation amount, allowing retail rates to increase by 1%, assessing penalties for non-compliance, and allowing recovery outside of rate cases for costs incurred (and pass through of benefits to customers of any savings achieved).

Further, they indicated that there will be additional costs for regulatory oversight, investigation, and litigation. The proposed legislation would require constant monitoring and auditing of the electric utilities cost of compliance for prudence as these costs were allowed to be recovered in customer's rates outside a rate case.

In addition, the department indicated that since the Commission is also required to select a program for tracking and verifying the trading of Renewable Energy Credits (REC), staff would also be required to review and monitor the selected program.

The department indicated this proposal is likely to lead to higher electric bills for a majority of Missourians. The proposed language limits the increase in rates to 1% but it is not clear if it is 1% per year or in total.

The department estimates that that following would be needed as a result of this proposal: one policy analyst to continually monitor electric utility compliance; one additional attorney and one additional paralegal to manage an estimated 10 to 15 additional litigation matters annually, plus provision of legal advice and input to technical staff; acquisition of consulting services with a cost of \$50,000 to \$100,000 a year to track and verify trading of renewable energy credits for each of three large municipals—totaling up to a maximum of 90 hours per month at hourly fees of \$100 - \$150.

The **Department of Elementary and Secondary Education** indicated this proposal would not impact their department or local schools.

Officials from the **Department of Higher Education** indicated no direct, foreseeable impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated that all utilities for the department are paid by the Office of Administration-Facilities Management and Design and Construction. They indicated that the proposal will have no impact on their department.

Officials from the **Department of Natural Resources** indicated this proposal would require the department to establish by rule a certification process for electricity generated from renewable resources that are used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal. Sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource and that meet established criteria, would be certified by the department by rule. The proposal requires the Public Service Commission to consult with the department in promulgating a rule to establish the Renewable Energy Standard. If not excused by the Public Service Commission for reasons beyond the control of the electric utility or if the maximum average retail rate increase is reached, the electric utility must pay penalties to the department that will be used to purchase renewable energy credits necessary for the electric utility to be in compliance with the targets. Excess funds after the purchase of the credits, would be used by the department's Energy Center solely for energy efficiency or renewable energy projects.

The increased use of renewable resources could provide economic opportunities for the agricultural and business sectors, improve energy reliability by diversifying the state's energy supplies, lower peak demands on the electric grid if distributed renewable generation is used, and improve environmental quality if fossil fuel combustion is displaced.

The department assumes one (1) FTE Planner II would be needed to implement the new responsibilities created by this proposal:

(1) Establish by rule a certification process for electricity generated from renewable resources used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal (section 393.1030.4). The department assumes it would establish certification criteria in consultation with a stakeholder group as part of the framework of rule promulgation consisting of electric utilities, Public Service Commission staff, environmental organizations, renewable energy industries, interested members of the public and other experts. On an ongoing basis, the Planner position would provide technical assistance to utilities, review and analysis of certification criteria due to technological advances and provide information to the public about the certification process and criteria. Criteria would include analysis of fuel type, technology and the environmental impacts of the generating facility (including adverse air, water or land use impacts and impacts associated with gathering of generation feedstocks). For renewable resources that are used with fossil fuels, calculations to determine the

electrical output generated from only the portion of renewable resources would be developed.

(2) Certify by rule sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource (393.1025.4). The Planner position would conduct ongoing analysis and review of new energy sources and if they meet the criteria established by the rule described above, the additional resource would be certified by rule as eligible to count toward compliance with the Renewable Energy Standard.

(3) Receive penalties for non-compliance that are at least twice the average market value of renewable energy credits and use the funds to purchase renewable energy credits necessary to bring the electric utility into compliance with the Renewable Energy Standard. Use excess funds after the purchase of such renewable energy credits for energy efficiency or renewable energy projects (393.1030.2(b)). The Planner position would establish a tracking and reporting system to account for funds received, determine the number of renewable energy credits to purchase in consultation with the Public Service Commission, purchase the credits on behalf of the appropriate electric utility and report the purchases to the utility and Public Service Commission. This position would insure that excess funds are used solely for energy efficiency and renewable energy projects.

(4) Participate in rule promulgation (as required by the proposal) with the Public Service Commission to prescribe the renewable energy portfolio requirements. Consult with the Public Service Commission on the selection of a program to track and verify trading of renewable energy credits (393.1030.1).

(5) In addition to the duties prescribed in the proposal, the department assumes it would provide technical assistance and information to utilities and the public related to each electric utility's creation of a standard rebate program for solar electric systems purchased by customers. The rebate would be a \$2.00 per watt rebate on systems up to 25 kilowatts.

Overall, the department estimated an annual cost of \$79,542 for this proposal.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** stated the proposal does not have a fiscal impact on their department.

The **Department of Revenue** indicated the proposal would have no impact on their department.

The **Department of Public Safety** indicated they are unable to determine the cost of new energy sources and therefore unable to determine the possible fiscal impact of these petitions.

The **Department of Social Services** indicated there is no direct fiscal impact to their department. However, they did indicate that their offices throughout the state are customers of utility companies. They estimate that passage of this petition would probably increase energy costs for those buildings. In recent years, authority for leasing state office space and paying utility bills has been transferred to the Office of Administration (OA). Therefore the department defers to OA to estimate the cost, if any.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to their agencies. Further, they indicated that if the provisions of this petition were to be approved by voters, there would not be a fiscal impact to the state as far as increases or decreases in state revenues. However, there could be a budget impact in that the costs the state pays to providers of electricity to state owned facilities could increase. According to the data warehouse, the state expended \$35,231,773 for electricity in fiscal year 2007.

The fiscal year 2008 fiscal impact is \$362,887 based on the following assumptions:

1. Level expenditures for fiscal year 2008 as fiscal year 2007;
2. Electric providers increase charges by the 1% allowed in the petitions;
3. 3% inflation factor.
 $\$35,231,773 * .01 * 1.03 = \$362,887$

The **House of Representatives** indicated the proposed initiative has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that the fiscal impact expected to their agency as a result of this proposal is uncertain.

The **Office of State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact on their agency as a result of the proposal.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of

ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from the **City of Jefferson** do not anticipate any fiscal impact as a result of this petition.

Officials from the **City of St. Louis** indicated this initiative petition would result in a significant fiscal impact to the city. The city states that this proposal would cause operating costs for the City of St. Louis to rise by an undetermined amount.

The City of St. Louis (City Offices, Street Department, and Lambert International Airport, excluding Water Department and Metropolitan Police Department) spent an estimated \$8,832,052 on electricity in fiscal year 2007. Currently in Missouri, electricity costs can fluctuate anywhere from 5 to 10 cents per kilowatt-hour on average. By following the proposed ballot language, the city estimates that this cost per kilowatt-hour could immediately rise to anywhere in the neighborhood of 10 cents per kilowatt-hour for wind power or 20 to 24 cents per kilowatt-hour for solar power. If, for example, the cost per kilowatt-hour were to rise to the current average level for solar power, the city would immediately realize an increase of nearly 3 ½ times its current electricity costs. This would cause our yearly average expenditure for electricity to jump from roughly \$8.8 million to almost \$31 million.

City officials indicated that some estimates say the average household uses around 11,000 kilowatt-hours a year costing around \$1,500 per year. If this unknown energy cost were to rise to the current average cost of solar power the average household would see their yearly electricity expenditures almost double to nearly \$2,900. This rapid cost increase would be extremely destructive to the average St. Louis City household.

City officials stated that the unknown cost increase could prove to be devastating to the entire economy of St. Louis City. They estimate that these unknown costs could become a crippling expense to their local government, businesses, and citizens.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the proposal will have no direct fiscal impact on their organization.

The **University of Missouri** indicated they are unable to determine the financial impact of this initiative petition.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Transportation**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Kansas City**, the **City of Kirksville**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **St. Louis Community College**.

Fiscal Note Summary

The estimated direct cost to state governmental entities is \$446,683. It is estimated there are no direct costs or savings to local governmental entities. However, indirect costs may be incurred by state and local governmental entities if the proposal results in increased electricity retail rates.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-12)**

Subject

Initiative petition from Henry Robertson regarding a proposed amendment to Chapter 393 of the Missouri Revised Statutes. (Received January 22, 2008)

Date

February 11, 2008

Description

This proposal would create the "Renewable Energy Standard" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Public Service Commission**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of Kirksville**, the **City of St. Louis**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** assumes that this proposal creates no fiscal impact for their office.

Officials from the **Department of Economic Development/Public Service Commission** estimate an annual cost of \$315,641 to the Public Service Commission Fund as result of this proposal.

The department indicated that this petition would require additional PSC rules including, setting a minimum generation amount, allowing retail rates to increase by 1%, assessing penalties for non-compliance, and allowing recovery outside of rate cases for costs incurred (and pass through of benefits to customers of any savings achieved).

Further, they indicated that there will be additional costs for regulatory oversight, investigation, and litigation. The proposed legislation would require constant monitoring and auditing of the electric utilities cost of compliance for prudence as these costs were allowed to be recovered in customer's rates outside a rate case.

In addition, the department indicated that since the Commission is also required to select a program for tracking and verifying the trading of Renewable Energy Credits (REC), staff would also be required to review and monitor the selected program.

The department indicated this proposal is likely to lead to higher electric bills for a majority of Missourians. The proposed language limits the increase in rates to 1% but it is not clear if it is 1% per year or in total.

The department estimates that that following would be needed as a result of this proposal: one policy analyst to continually monitor electric utility compliance; one additional attorney and one additional paralegal to manage an estimated 10 to 15 additional litigation matters annually, plus provision of legal advice and input to technical staff; acquisition of consulting services with a cost of \$50,000 to \$100,000 a year to track and verify trading of renewable energy credits. This is based on approximately 12 hours a month for tracking and verification of the trading of renewable energy credits for each of the four Investor Owned Utilities (IOUs) and the Association of Missouri Electric Cooperatives (AMEC)—totaling up to a maximum of 60 hours per month at hourly fees of \$100 - \$150.

The **Department of Elementary and Secondary Education** indicated this proposal would not impact their department or local schools.

Officials from the **Department of Higher Education** indicated no direct, foreseeable impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated that all utilities for the department are paid by the Office of Administration-Facilities Management and Design and Construction. They indicated that the proposal will have no impact on their department.

Officials from the **Department of Natural Resources** indicated this proposal would require the department to establish by rule a certification process for electricity generated from renewable resources that are used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal. Sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource and that meet established criteria, would be certified by the department by rule. The proposal requires the Public Service Commission to consult with the department in promulgating a rule to establish the Renewable Energy Standard. If not excused by the Public Service Commission for reasons beyond the control of the electric utility or if the maximum average retail rate increase is reached, the electric utility must pay penalties to the department that will be used to purchase renewable energy credits necessary for the electric utility to be in compliance with the targets. Excess funds after the purchase of the credits, would be used by the department's Energy Center solely for energy efficiency or renewable energy projects.

The increased use of renewable resources could provide economic opportunities for the agricultural and business sectors, improve energy reliability by diversifying the state's energy supplies, lower peak demands on the electric grid if distributed renewable generation is used, and improve environmental quality if fossil fuel combustion is displaced.

The department assumes one (1) FTE Planner II would be needed to implement the new responsibilities created by this proposal:

(1) Establish by rule a certification process for electricity generated from renewable resources used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal (section 393.1030.4). The department assumes it would establish certification criteria in consultation with a stakeholder group as part of the framework of rule promulgation consisting of electric utilities, Public Service Commission staff, environmental organizations, renewable energy industries, interested members of the public and other experts. On an ongoing basis, the Planner position would provide technical assistance to utilities, review and analysis of certification criteria due to technological advances and provide information to the public about the certification process and criteria. Criteria would include analysis of fuel type, technology and the environmental impacts of the generating facility (including adverse air, water or

land use impacts and impacts associated with gathering of generation feedstocks). For renewable resources that are used with fossil fuels, calculations to determine the electrical output generated from only the portion of renewable resources would be developed.

(2) Certify by rule sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource (393.1025.4). The Planner position would conduct ongoing analysis and review of new energy sources and if they meet the criteria established by the rule described above, the additional resource would be certified by rule as eligible to count toward compliance with the Renewable Energy Standard.

(3) Receive penalties for non-compliance that are at least twice the average market value of renewable energy credits and use the funds to purchase renewable energy credits necessary to bring the electric utility into compliance with the Renewable Energy Standard. Use excess funds after the purchase of such renewable energy credits for energy efficiency or renewable energy projects (393.1030.2(b)). The Planner position would establish a tracking and reporting system to account for funds received, determine the number of renewable energy credits to purchase in consultation with the Public Service Commission, purchase the credits on behalf of the appropriate electric utility and report the purchases to the utility and Public Service Commission. This position would insure that excess funds are used solely for energy efficiency and renewable energy projects.

(4) Participate in rule promulgation (as required by the proposal) with the Public Service Commission to prescribe the renewable energy portfolio requirements. Consult with the Public Service Commission on the selection of a program to track and verify trading of renewable energy credits (393.1030.1).

(5) In addition to the duties prescribed in the proposal, the department assumes it would provide technical assistance and information to utilities and the public related to each electric utility's creation of a standard rebate program for solar electric systems purchased by customers. The rebate would be a \$2.00 per watt rebate on systems up to 25 kilowatts.

Overall, the department estimated an annual cost of \$79,542 for this proposal.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** stated the proposal does not have a fiscal impact on their department.

The **Department of Revenue** indicated the proposal would have no impact on their department.

The **Department of Public Safety** indicated they are unable to determine the cost of new energy sources and therefore unable to determine the possible fiscal impact of these petitions.

The **Department of Social Services** indicated there is no direct fiscal impact to their department. However, they did indicate that their offices throughout the state are customers of utility companies. They estimate that passage of this petition would probably increase energy costs for those buildings. In recent years, authority for leasing state office space and paying utility bills has been transferred to the Office of Administration (OA). Therefore the department defers to OA to estimate the cost, if any.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to their agencies. Further, they indicated that if the provisions of this petition were to be approved by voters, there would not be a fiscal impact to the state as far as increases or decreases in state revenues. However, there could be a budget impact in that the costs the state pays to providers of electricity to state owned facilities could increase. According to the data warehouse, the state expended \$35,231,773 for electricity in fiscal year 2007.

The fiscal year 2008 fiscal impact is \$362,887 based on the following assumptions:

1. Level expenditures for fiscal year 2008 as fiscal year 2007;
 2. Electric providers increase charges by the 1% allowed in the petitions;
 3. 3% inflation factor.
- $$\$35,231,773 * .01 * 1.03 = \$362,887$$

The **House of Representatives** indicated the proposed initiative has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that the fiscal impact expected to their agency as a result of this proposal is uncertain.

The **Office of State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact on their agency as a result of the proposal.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this

item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from the **City of Jefferson** do not anticipate any fiscal impact as a result of this petition.

Officials from the **City of St. Louis** indicated this initiative petition would result in a significant fiscal impact to the city. The city states that this proposal would cause operating costs for the City of St. Louis to rise by an undetermined amount.

The City of St. Louis (City Offices, Street Department, and Lambert International Airport, excluding Water Department and Metropolitan Police Department) spent an estimated \$8,832,052 on electricity in fiscal year 2007. Currently in Missouri, electricity costs can fluctuate anywhere from 5 to 10 cents per kilowatt-hour on average. By following the proposed ballot language, the city estimates that this cost per kilowatt-hour could immediately rise to anywhere in the neighborhood of 10 cents per kilowatt-hour for wind power or 20 to 24 cents per kilowatt-hour for solar power. If, for example, the cost per kilowatt-hour were to rise to the current average level for solar power, the city would immediately realize an increase of nearly 3 ½ times its current electricity costs. This would cause our yearly average expenditure for electricity to jump from roughly \$8.8 million to almost \$31 million.

City officials indicated that some estimates say the average household uses around 11,000 kilowatt-hours a year costing around \$1,500 per year. If this unknown energy cost were to rise to the current average cost of solar power the average household would see their yearly electricity expenditures almost double to nearly \$2,900. This rapid cost increase would be extremely destructive to the average St. Louis City household.

City officials stated that the unknown cost increase could prove to be devastating to the entire economy of St. Louis City. They estimate that these unknown costs could become a crippling expense to their local government, businesses, and citizens.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the proposal will have no direct fiscal impact on their organization.

The **University of Missouri** indicated they are unable to determine the financial impact of this initiative petition.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Transportation**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Kansas City**, the **City of Kirksville**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **St. Louis Community College**.

Fiscal Note Summary

The estimated direct cost to state governmental entities is \$395,183. It is estimated there are no direct costs or savings to local governmental entities. However, indirect costs may be incurred by state and local governmental entities if the proposal results in increased electricity retail rates.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-13)**

Subject

Initiative petition from Henry Robertson regarding a proposed amendment to Chapter 393 of the Missouri Revised Statutes. (Received January 22, 2008)

Date

February 11, 2008

Description

This proposal would create the "Renewable Energy Standard" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Public Service Commission**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of Kirksville**, the **City of St. Louis**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** assumes that this proposal creates no fiscal impact for their office.

Officials from the **Department of Economic Development/Public Service Commission** estimate an annual cost of \$470,141 to the Public Service Commission Fund as result of this proposal.

The department indicated that this petition would require additional PSC rules including, setting a minimum generation amount, allowing retail rates to increase by 1%, assessing penalties for non-compliance, and allowing recovery outside of rate cases for costs incurred (and pass through of benefits to customers of any savings achieved).

Further, they indicated that there will be additional costs for regulatory oversight, investigation, and litigation. The proposed legislation would require constant monitoring and auditing of the electric utilities cost of compliance for prudence as these costs were allowed to be recovered in customer's rates outside a rate case.

In addition, the department indicated that since the Commission is also required to select a program for tracking and verifying the trading of Renewable Energy Credits (REC), staff would also be required to review and monitor the selected program.

The department indicated this proposal is likely to lead to higher electric bills for a majority of Missourians. The proposed language limits the increase in rates to 1% but it is not clear if it is 1% per year or in total.

The department estimates that that following would be needed as a result of this proposal: one policy analyst to continually monitor electric utility compliance; one additional attorney and one additional paralegal to manage an estimated 10 to 15 additional litigation matters annually, plus provision of legal advice and input to technical staff; acquisition of consulting services with a cost of \$50,000 to \$250,000 a year to track and verify trading of renewable energy credits for each of thirty smaller municipalities—totaling up to a maximum of 150 hours per month at hourly fees of \$100 - \$150.

The **Department of Elementary and Secondary Education** indicated this proposal would not impact their department or local schools.

Officials from the **Department of Higher Education** indicated no direct, foreseeable impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated that all utilities for the department are paid by the Office of Administration-Facilities Management and Design and Construction. They indicated that the proposal will have no impact on their department.

Officials from the **Department of Natural Resources** indicated this proposal would require the department to establish by rule a certification process for electricity generated from renewable resources that are used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal. Sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource and that meet established criteria, would be certified by the department by rule. The proposal requires the Public Service Commission to consult with the department in promulgating a rule to establish the Renewable Energy Standard. If not excused by the Public Service Commission for reasons beyond the control of the electric utility or if the maximum average retail rate increase is reached, the electric utility must pay penalties to the department that will be used to purchase renewable energy credits necessary for the electric utility to be in compliance with the targets. Excess funds after the purchase of the credits, would be used by the department's Energy Center solely for energy efficiency or renewable energy projects.

The increased use of renewable resources could provide economic opportunities for the agricultural and business sectors, improve energy reliability by diversifying the state's energy supplies, lower peak demands on the electric grid if distributed renewable generation is used, and improve environmental quality if fossil fuel combustion is displaced.

The department assumes one (1) FTE Planner II would be needed to implement the new responsibilities created by this proposal:

(1) Establish by rule a certification process for electricity generated from renewable resources used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal (section 393.1030.4). The department assumes it would establish certification criteria in consultation with a stakeholder group as part of the framework of rule promulgation consisting of electric utilities, Public Service Commission staff, environmental organizations, renewable energy industries, interested members of the public and other experts. On an ongoing basis, the Planner position would provide technical assistance to utilities, review and analysis of certification criteria due to technological advances and provide information to the public about the certification process and criteria. Criteria would include analysis of fuel type, technology and the environmental impacts of the generating facility (including adverse air, water or land use impacts and impacts associated with gathering of generation feedstocks). For renewable resources that are used with fossil fuels, calculations to determine the

electrical output generated from only the portion of renewable resources would be developed.

(2) Certify by rule sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource (393.1025.4). The Planner position would conduct ongoing analysis and review of new energy sources and if they meet the criteria established by the rule described above, the additional resource would be certified by rule as eligible to count toward compliance with the Renewable Energy Standard.

(3) Receive penalties for non-compliance that are at least twice the average market value of renewable energy credits and use the funds to purchase renewable energy credits necessary to bring the electric utility into compliance with the Renewable Energy Standard. Use excess funds after the purchase of such renewable energy credits for energy efficiency or renewable energy projects (393.1030.2(b)). The Planner position would establish a tracking and reporting system to account for funds received, determine the number of renewable energy credits to purchase in consultation with the Public Service Commission, purchase the credits on behalf of the appropriate electric utility and report the purchases to the utility and Public Service Commission. This position would insure that excess funds are used solely for energy efficiency and renewable energy projects.

(4) Participate in rule promulgation (as required by the proposal) with the Public Service Commission to prescribe the renewable energy portfolio requirements. Consult with the Public Service Commission on the selection of a program to track and verify trading of renewable energy credits (393.1030.1).

(5) In addition to the duties prescribed in the proposal, the department assumes it would provide technical assistance and information to utilities and the public related to each electric utility's creation of a standard rebate program for solar electric systems purchased by customers. The rebate would be a \$2.00 per watt rebate on systems up to 25 kilowatts.

Overall, the department estimated an annual cost of \$79,542 for this proposal.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** stated the proposal does not have a fiscal impact on their department.

The **Department of Revenue** indicated the proposal would have no impact on their department.

The **Department of Public Safety** indicated they are unable to determine the cost of new energy sources and therefore unable to determine the possible fiscal impact of these petitions.

The **Department of Social Services** indicated there is no direct fiscal impact to their department. However, they did indicate that their offices throughout the state are customers of utility companies. They estimate that passage of this petition would probably increase energy costs for those buildings. In recent years, authority for leasing state office space and paying utility bills has been transferred to the Office of Administration (OA). Therefore the department defers to OA to estimate the cost, if any.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to their agencies. Further, they indicated that if the provisions of this petition were to be approved by voters, there would not be a fiscal impact to the state as far as increases or decreases in state revenues. However, there could be a budget impact in that the costs the state pays to providers of electricity to state owned facilities could increase. According to the data warehouse, the state expended \$35,231,773 for electricity in fiscal year 2007.

The fiscal year 2008 fiscal impact is \$362,887 based on the following assumptions:

1. Level expenditures for fiscal year 2008 as fiscal year 2007;
2. Electric providers increase charges by the 1% allowed in the petitions;
3. 3% inflation factor.
 $\$35,231,773 * .01 * 1.03 = \$362,887$

The **House of Representatives** indicated the proposed initiative has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that the fiscal impact expected to their agency as a result of this proposal is uncertain.

The **Office of State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact on their agency as a result of the proposal.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of

ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from the **City of Jefferson** do not anticipate any fiscal impact as a result of this petition.

Officials from the **City of St. Louis** indicated this initiative petition would result in a significant fiscal impact to the city. The city states that this proposal would cause operating costs for the City of St. Louis to rise by an undetermined amount.

The City of St. Louis (City Offices, Street Department, and Lambert International Airport, excluding Water Department and Metropolitan Police Department) spent an estimated \$8,832,052 on electricity in fiscal year 2007. Currently in Missouri, electricity costs can fluctuate anywhere from 5 to 10 cents per kilowatt-hour on average. By following the proposed ballot language, the city estimates that this cost per kilowatt-hour could immediately rise to anywhere in the neighborhood of 10 cents per kilowatt-hour for wind power or 20 to 24 cents per kilowatt-hour for solar power. If, for example, the cost per kilowatt-hour were to rise to the current average level for solar power, the city would immediately realize an increase of nearly 3 ½ times its current electricity costs. This would cause our yearly average expenditure for electricity to jump from roughly \$8.8 million to almost \$31 million.

City officials indicated that some estimates say the average household uses around 11,000 kilowatt-hours a year costing around \$1,500 per year. If this unknown energy cost were to rise to the current average cost of solar power the average household would see their yearly electricity expenditures almost double to nearly \$2,900. This rapid cost increase would be extremely destructive to the average St. Louis City household.

City officials stated that the unknown cost increase could prove to be devastating to the entire economy of St. Louis City. They estimate that these unknown costs could become a crippling expense to their local government, businesses, and citizens.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the proposal will have no direct fiscal impact on their organization.

The **University of Missouri** indicated they are unable to determine the financial impact of this initiative petition.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Transportation**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Kansas City**, the **City of Kirksville**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **St. Louis Community College**.

Fiscal Note Summary

The estimated direct cost to state governmental entities is \$549,683. It is estimated there are no direct costs or savings to local governmental entities. However, indirect costs may be incurred by state and local governmental entities if the proposal results in increased electricity retail rates.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-14)**

Subject

Initiative petition from Robin Acree regarding a proposed amendment to Article X of the Missouri Constitution. (Received January 25, 2008)

Date

February 14, 2008

Description

This proposal would create the "Missouri Tax Fairness Initiative" in the Missouri Constitution.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **St. Charles County**, the **City of Joplin**, the **City of Kirksville**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** states that because this proposal has the potential to be the subject of state litigation, potential costs are unknown but should not exceed \$100,000.

Officials from the **Department of Economic Development** estimates a significant but unknown negative impact on General Revenue. Current tax credit/incentive programs generate up to \$11.39 in net general revenue increases for every dollar issued in credit/benefits. The negative impact on GR could not be projected until exact program changes imposed by this change were known. The department is unsure of the impact as it is difficult to determine how it would be implemented. Impact on programs can not be predicted with the minimal amount of text in the bill and the unknown factor of voting. The department assumes an unknown but significant negative impact to Missouri. While they estimate there may be a small positive impact through elimination of tax credits, it would be offset by a significantly larger loss to general revenue by elimination of the direct and indirect benefits generated for Missouri by these programs. The department also assumes the elimination of tax credit programs would have a significant impact on local economies but the amount is unknown. In general, elimination of incentives for businesses to locate to Missouri could/would have far reaching impact on the total economy of the state.

The **Department of Elementary and Secondary Education** indicated this proposal would not impact their department.

Officials from the **Department of Higher Education** indicated, if passed, this initiative would have no foreseeable direct fiscal impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated that implementation of this legislation would have no fiscal impact to the department.

Officials from the **Department of Natural Resources** indicated they would not anticipate a direct fiscal impact from this proposal.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** stated the proposal does not have a fiscal impact on their department.

The **Department of Revenue** indicated the proposal will not have a fiscal impact on their department.

The **Department of Public Safety** indicated no fiscal impact as a result of this initiative petition on the director's office.

The **Department of Social Services** indicated there will be no fiscal impact to their department.

Officials from the **Governor's Office/Office of Administration** indicated this petition submits to the voters an amendment to the Missouri Constitution to limit the amount of corporate tax credits and deductions that may be enacted by the General Assembly in a single fiscal year. The proposal is applicable to corporate income, corporate franchise, and financial institutions taxes.

The proposed limit is equal to the amount of the limit on tax increases that may be passed by the General Assembly without voter approval, as defined in Article X, Section 18(e) of the Missouri Constitution. If the aggregate of tax cuts passed by the General Assembly exceeds this limit, then the credits shall be submitted to the voters of Missouri for approval. The estimated 18(e) limit for FY08 is \$85.9 million.

If passed by the voters, this change to the constitution should not result in additional costs or savings to the Governor's Office or the Office of Administration.

The **Department of Conservation** indicated that no fiscal impact is expected to their agency as a result of this proposal.

The **Missouri Senate** indicated there appears to be no fiscal impact on their agency as a result of the proposal.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from the **City of St. Louis** indicated the initiative petition would result in a very significant and negative fiscal impact to the city. They estimate that this constitutional amendment, if passed by the voters, would cost the city a minimum of \$21 million per year in lost revenue, or a minimum of \$210 million over a ten-year period, as discussed in further detail below. In addition, they believe that this estimate of negative fiscal impact on the city is conservative.

As they read the language in the initiative petition, the new provisions proposed for the Missouri constitution would invalidate all Missouri tax credits issued after July 1, 2008, including tax credits currently permitted by law, unless such tax credits are approved by a public vote of the people of the State of Missouri. The language does not seem entirely clear as to whether any credits to be granted in a particular year must be submitted for a public vote each year, although the language, set forth below, implies that a vote must be held each year since the standard for requiring a vote is whether or not credits, if issued, would exceed section 18(e) limitations for the previous year. A number of Missouri tax credit programs—most particularly the historic tax credit, the Brownfields tax credit, and the low-income housing tax credit—are used extensively in the City of St. Louis to further the city's revitalization. The city lost 60% of its population, or more than 500,000 people, from 1950 through 2000, and business and job losses mirrored these population losses. While their job base is now, for all practical purposes, stabilized and their population is slowly increasing, the city has in no way completely recovered from these devastating population, job and business losses. It is essential that these Missouri tax credit tools remain available so that the city's revitalization can continue.

Both the historic tax credit and Brownfields tax credit programs produce new or substantially rehabilitated commercial space, in locations and in buildings that are vacant and very deteriorated, in locations where there has not been a market for such space in decades. Consumers of commercial real estate will not pay the same price for such space in a deteriorated urban area as they will in a burgeoning suburb. It takes incentives like those that these tax credits provide to develop such space and market it at rates that will give consumers a reason to locate in the city—the city is still perceived by many businesses and workers as a considerably less desirable location than locations in surrounding suburbs. It is also important to note that the city also supports this redevelopment with tax abatement, tax increment financing and other local financing incentives.

As is demonstrated in the graphs below, both the Historic and Brownfields tax credits produce jobs. Many city residents need jobs or better jobs to provide an acceptable quality of life for their families—the city's unemployment rate has historically been more than 1.5 to 2 times the national average. More than 25% of the city's families live in

poverty, and more than 80% of the city's households have incomes at 80% or less of the area's median income. City officials estimate that the Brownfields Tax Credit and Historic Tax Credit programs alone produce an average of more than 1,700 new jobs per year in the City of St. Louis, or a cumulative total of more than 17,000 jobs over a 10-year period—these jobs would be lost if the Brownfields and historic tax credit programs are no longer available.

Another important result of these tax credit programs is that they allow new homes to be developed in the city. These new homes make it possible for the city to begin to rebuild its population base. The Brownfields tax credit program, the Historic tax credit program, and the Low-Income housing tax credit program are all essential in producing these new homes that are helping us to rebuild our population and the market for our residential real estate—a market where residential consumers will pay the cost of developing a new home has not existed in many parts of the city for four or more decades. In many parts of the city, homes have historically been abandoned when they come on the market because no one wants to buy them. Residential consumers will not pay the same price for a home in a deteriorated location with no market as they will in a location where the market is thriving. We estimate that, using the Brownfields, Historic and Low-Income tax credit programs alone, a total of more than 11,000 new homes can be produced in the city over the next 10 years. As shown on the attached tables, officials estimate that these new homes will bring approximately 6,900 new residents to the city. Further, in the case of the low-income housing tax credit, designed to assist developers in providing rental homes of decent, safe and sanitary quality for families who cannot afford to pay rent that offsets the total cost of new home development, many families in the city will suffer because no new homes can be developed, rehabilitated or preserved and rented at affordable rates. These new homes, and the affordability of a significant portion of these new homes, will be lost if the constitution is amended as proposed.

City officials believe that the language proposed by this initiative petition, if approved by the voters and placed in the Missouri Constitution, would make it impossible for these tax credits to remain available in Missouri. The real estate development that is necessary for the city's revitalization to continue is both a risky and time-sensitive enterprise. Developers will not plan development projects knowing either that the necessary tax credits will not be available at all or that the availability of the credits hinges on the outcome of a public vote. These developers will look elsewhere for development opportunities to pursue—most likely outside the State of Missouri, and almost certainly outside the City of St. Louis, where the current state of our real estate market does not support the cost of physical revitalization. The city's economy will suffer greatly as a result—calculations on the magnitude of this negative impact are summarized above and below and detailed in the attachments to this letter, as is the methodology for the calculations.

In addition, many of the city's historic properties, now vacant and in serious disrepair, will continue to deteriorate to the point where demolition is the only available option—it will not be possible to rehabilitate these properties because they cannot, once completed, be leased or sold for the price required to recover the cost of acquiring the property and

rehabilitating it. Historic rehabilitation that preserves the unique features of these properties is more expensive than rehabilitation that destroys the irreplaceable features that make these properties such an important part of our heritage. These unique and irreplaceable resources will be lost to the city and Missouri forever if the proposed amendment is approved by the voters.

Finally, as an historic industrial city originally developed during the first part of the 20th century before the negative impacts of various substances on the environment and public safety were known, appreciated or regulated, the city suffers from the fact a significant percentage of the property within its boundaries is characterized as “Brownfields.” This term means that substances that are dangerous to public safety and the environment are present on the property, and that these substances require remediation pursuant to current law and/or prudent financing policies—lenders will not finance an environmentally damaged property unless the environmental damage is remediated. As a result, “Brownfields” properties are even more disadvantaged in terms of marketability than other “clean” properties in the city—and there are very few completely “clean” properties. The Brownfields tax credit program was enacted to offset the cost of this remediation, giving these properties a more “level playing field” when competing with the environmentally clean properties that are present in other locations for development and occupancy. If the cost of remediation cannot be offset with state Brownfields tax credits, these properties will remain undeveloped and plagued with environmental contamination.

As detailed in the graphs below, and taking into account other tax credit programs that are utilized for the city’s revitalization but are not detailed in their calculations they estimate that the total negative fiscal impact of the constitutional language in this initiative petition, taking into account only Brownfields, Historic and Low-Income tax credits, will exceed an average of \$21 million per year from both the loss of recurring revenues derived from the ongoing operation of newly developed and redeveloped property and the loss of revenues resulting from construction activity that would not take place if the petition is approved by the voters.

Revenues resulting from construction activity include sales taxes, earnings and payroll taxes, and building permit fees that the city would receive as a result of the construction. Ongoing revenues include increases in overall real estate tax collections that result from the redevelopment, increases in sales tax revenue that result from new retail establishments occupying the redeveloped property, increases in personal property tax that both new retail establishments and new office and manufacturing occupants of the redeveloped property will pay, new utility tax revenues from properties that are now either vacant buildings or vacant land, and new revenues generated from residents new to the city who will pay additional sales, earnings, personal property, and utility taxes. In addition, the estimates reflected in this letter do not take into account either new personal property tax revenue or revenue that will result from new spending in the city by new businesses, workers and residents, or the additional real estate tax revenues that the city and the Board of Education will receive when tax abatement or TIF incentives expire.

City officials performed all of these calculations as if 90% of the projects have tax increment financing, and the remaining 10% have real estate tax abatement. A number of the projects analyzed have tax increment financing, but many have only real estate tax abatement or no abatement or TIF at all. Tax increment financing captures 50% of the increase in economic activity taxes and 100% of the increase in real estate tax resulting from the project, but tax abatement captures only the real estate tax increment—far more than 90% of the projects made possible by the three tax credit programs analyzed produce jobs and sales tax revenue, with 100% of these revenues is available to the city’s general revenue.

Further, as noted above, these fiscal impact estimates take into account only three of the many Missouri tax credit programs that benefit the revitalization of the City of St. Louis--the Brownfields, Historic and Low-Income tax credit programs. Other Missouri tax credit programs not included in this analysis are essential to the city’s revitalization. These other tax credit programs include but are not limited to the following: Quality Jobs Tax Credit, Infrastructure Tax Credit, Development Tax Credit, Rebuilding Communities Tax Credit, Neighborhood Preservation Tax Credit, Affordable Housing Tax Credit, and Enterprise Zone Tax Credits. City officials estimate that these other tax credit programs will also no longer be available if this initiative petition is approved by the voters, but they did not have time to calculate the impact of all of these programs.

Thus, they believe that the long-term negative fiscal impact on the city if the initiative petition passes will significantly exceed the negative fiscal impact set forth above.

The tables below are based on detailed calculations for tax credit projects approved by the State of Missouri over a three-year period and average the annual volume and characteristics of these projects.

Further, the language the petition proposes to insert into the Missouri Constitution would prohibits the general assembly from enacting “legislation that allows for the issuance of credits or deductions against any corporate tax due pursuant to Missouri law including but not limited to chapters 143, 147, and 148, RSMo 2007, or their successors, without voter approval where the total cost of such credits and deductions in any fiscal year is more than the amount of the limitation on increases in taxes or fees in a fiscal year without voter approval in section 18(e) of this article. In the event that an individual or series of credit or deductions exceed the ceiling established in Section 18(e), the credits or deductions shall be submitted by the general assembly to a public vote starting with the largest credit or deduction in the given year, and including all credits or deductions in descending order, until the aggregate of the remaining credit or deductions is less than the ceiling provided in this subsection.”

As indicated above, officials from the City of St. Louis believe these new constitutional provisions will effectively end the use of all tax credit programs in Missouri, causing serious fiscal harm to the City of St. Louis.

CITY REVENUES FROM CONSTRUCTION

CREDIT TYPE:	LOW-INCOME HOUSING--9%	LOW-INCOME HOUSING--4%	BROWNFIELDS REMEDIATION	HISTORIC	TOTALS
ESTIMATED AVERAGE ANNUAL TOTAL DEVELOPMENT COST FOR PROJECTS USING CREDIT:	\$23,468,986	\$51,240,642	\$284,983,823	\$229,773,205	\$589,466,656
Estimated construction cost as % of total cost:	68%	68%	68%	68%	68%
ESTIMATED CONSTRUCTION COST:	\$15,841,566	\$34,587,433	\$192,364,081	\$155,096,913	\$397,889,993
Estimated labor as % of construction cost:	40%	40%	40%	40%	40%
Estimated % of construction workers on project not living in City:	90%	90%	90%	90%	90%
ESTIMATED PAYROLL NEW TO CITY:	\$5,702,964	\$12,451,476	\$69,251,069	\$55,834,889	\$143,240,397
PAYROLL-EARNINGS TAX RATE:	1.50%	1.50%	1.50%	1.50%	1.50%
ESTIMATED NEW PAYROLL/EARNINGS TAX FROM CONSTRUCTION:	\$85,544	\$186,772	\$1,038,766	\$837,523	\$2,148,606
Estimated materials purchases as % of construction contract:	40%	40%	40%	40%	40%
ESTIMATED MATERIALS PURCHASES:	\$6,336,626	\$13,834,973	\$76,945,632	\$62,038,765	\$159,155,997
% OF MATERIALS PURCHASED IN CITY:	25%	25%	25%	25%	25%
Estimated materials purchased in City:	\$1,584,157	\$3,458,743	\$19,236,408	\$15,509,691	\$39,788,999
CITY SALES TAX RATE:	2.85%	2.85%	2.85%	2.85%	2.85%
ESTIMATED NEW CITY SALES TAX FROM CONSTRUCTION:	\$45,148	\$98,574	\$548,238	\$442,026	\$1,133,986
% of total construction as building permit basis:	90%	90%	90%	90%	90%
BUILDING PERMIT FEE BASIS:	\$14,257,409	\$31,128,690	\$173,127,672	\$139,587,222	\$358,100,993
CITY BUILDING PERMIT FEE RATE:	0.90%	0.90%	0.90%	0.90%	0.90%
ESTIMATED CITY BUILDING PERMIT FEE REVENUE FROM PROJECT:	\$128,317	\$280,158	\$1,558,149	\$1,256,285	\$3,222,909
TOTAL ESTIMATED ANNUAL CITY REVENUE FROM PROJECTS THAT WOULD NOT BE BUILT WITHOUT STATE LOW-INCOME, BROWNFIELDS & HISTORIC TAX CREDITS:*	\$259,010	\$565,505	\$3,145,153	\$2,535,835	\$6,505,501

*Duplicate projects (projects using more than one credit type have) have been removed from above total costs.

ASSUMPTIONS--NEW RECURRING REVENUES FROM BROWNFIELDS, HISTORIC AND LOW-INCOME TAX CREDITS

AVERAGE/YEAR	TOTAL	% NEW	\$ AMOUNT NEW	TAX RATE	TAX	% OF TAX RETAINED*	\$ AMOUNT OF TAX RETAINED
BROWNFIELDS TAX CREDITS:							
PAYROLL	\$32,228,391	90.00%	\$29,005,552	1.50%	\$435,083	55.00%	\$239,296
SALES	\$42,486,299	90.00%	\$38,237,669	2.85%	\$1,089,774	55.00%	\$599,375
HOTEL SALES	\$5,921,760	90.00%	\$5,329,584	6.35%	\$338,429	100.00%	\$338,429
RESTAURANT SALES	\$13,140,982	90.00%	\$11,826,884	1.50%	\$177,403	55.00%	\$97,572
UTILITY SALES	\$2,353,442	80.00%	\$1,882,753	7.00%	\$131,793	100.00%	\$131,793
RESIDENTIAL ASSESSED VALUE	\$13,908,543	100.00%	\$13,908,543	6.48%	\$901,955	0.00%	\$0
COMMERCIAL ASSESSED VALUE	\$14,442,737	67.41%	\$9,735,392	8.12%	\$790,991	20.18%	\$159,660
TOTAL TAX RETAINED FROM BROWNFIELDS TAX CREDIT PROJECTS:							\$1,566,125
HISTORIC TAX CREDITS:							
PAYROLL	\$22,462,650	90.00%	\$20,216,385	1.50%	\$303,246	55.00%	\$166,785
SALES	\$21,442,648	90.00%	\$19,298,383	2.85%	\$550,004	55.00%	\$302,502
HOTEL SALES	\$1,428,986	90.00%	\$1,286,087	6.35%	\$81,667	100.00%	\$81,667
RESTAURANT SALES	\$7,504,927	90.00%	\$6,754,434	1.50%	\$101,317	55.00%	\$55,724
UTILITY SALES	\$2,022,244	80.00%	\$1,617,795	7.00%	\$113,246	100.00%	\$113,246
RESIDENTIAL ASSESSED VALUE	\$22,700,413	100.00%	\$22,700,413	6.48%	\$1,472,099	0.00%	\$0
COMMERCIAL ASSESSED VALUE	\$7,361,416	67.41%	\$4,962,098	8.12%	\$403,165	20.18%	\$81,378
TOTAL TAX RETAINED FROM HISTORIC TAX CREDIT PROJECTS:							\$801,302
LOW INCOME TAX CREDITS:							
UTILITY SALES	\$98,533	80.00%	\$78,827	7.00%	\$5,518	100.00%	\$5,518
TOTAL TAX RETAINED FROM LOW INCOME TAX CREDIT PROJECTS:							\$5,518

*Assumes 90% of projects have TIFs for payroll, sales, hotel and restaurant sales tax calcs; all projects have TIF or tax abatement for real estate tax calcs.

NEW REVENUES PER YEAR FROM BROWNFIELDS, HISTORIC AND LOW-INCOME TAX CREDIT PROJECTS

[illegible]

*Assumes all costs and revenues escalate 2%/year

NEW HOMES FROM BROWNFIELDS, HISTORIC AND LOW-INCOME TAX CREDIT PROJECTS

[illegible]

NEW JOBS FROM BROWNFIELDS, HISTORIC AND LOW-INCOME TAX CREDIT PROJECTS

[illegible]

METHODOLOGY--CALCULATION OF CONSTRUCTION REVENUES AND NEW RECURRING REVENUES FROM BROWNFIELDS, HISTORIC AND LOW-INCOME TAX CREDITS

1. Each specific project approved for a three-year period for each of the Brownfields, Historic, 4% Low-Income Housing, and 9% Low-Income Housing Tax Credits has been reviewed and the average volume of redevelopment/year determined.
2. Projects using more than one of the three credit types in 3-year review period were identified and duplicates eliminated.
3. Each of the Historic projects was classified as to whether the property was vacant or occupied at time of development where known; known for more than 75% of Historic projects; only known uses included in recurring revenue calculations.
4. Each of the Low-Income projects was classified as to whether homes receiving the credit were existing occupied homes at time of development or whether the homes were new; only new homes included in new unit, population increase and recurring revenue calculations.
5. Use and occupancy of each Brownfields project was identified where possible based on data available from applications for TIF and other City incentives; use and occupancy of remaining projects based on known use and status at time of redevelopment.
6. Use of each Historic project after redevelopment was specified where known; areas were estimated based on typical construction costs; construction revenues were estimated based on typical % of total cost; recurring revenues were estimated based on specific data available for similar projects and estimated areas; only projects where use is known; only project area vacant at time of redevelopment included in recurring revenue calculations.
7. All Brownfields projects are included in recurring revenue calculations--all Brownfields projects must produce jobs in proportion to tax credits received; all but 1 of 33 Brownfields projects reviewed known to be vacant or substantially vacant at time of redevelopment.
8. Construction from all unduplicated projects is included in the construction revenue calculations--whether or not units/areas were new, existing or occupied, construction activity must take place in order to receive the credits.
9. New recurring revenues are cumulative; once a project is completed, it produces recurring revenue each year. Recurring revenues from previous projects are added to recurring revenues from current year projects to determine recurring revenue in each year of 10-year period and 10-year averages and totals.
10. Increases in base real estate tax revenues have not been included in these calculations, because most of the properties redeveloped receive either Tax Increment Financing or Tax Abatement from the city. Only the \$1.64/\$100 "commercial surcharge", which is not includable in TIF revenues, has been accounted for in these calculations. Once the TIF or Tax Abatement ends, the full value of the real estate tax revenue will be available to the City--this increase in real estate tax revenue is excluded from these calculations but is a very real revenue source for the City in future years.
11. The new developments will also generate personal property tax revenue each year--personal property tax is a revenue source that is not includable in either TIF or tax abatement. The value of personal property tax revenues produced by businesses occupying the new developments and residents new to the City has not been included in these calculations.
12. New businesses, new workers and new residents also produce direct sales and use tax revenues for the City through the purchases they make and/or are taxed on in the City. These new revenues have not been included in these calculations.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the proposal will have no fiscal impact on their organization.

The **University of Missouri** indicated this initiative petition will have no identifiable fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Missouri House of Representatives**, the **Office of State Courts Administrator**, the **Department of Transportation**, **Cole County**, **Greene County**, **St. Charles County**, the **City of Joplin**, the **City of Kirksville**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **St. Louis Community College**.

Fiscal Note Summary

The cost or savings of this proposal to state and local governmental entities is unknown since voter approval is required for corporate tax credits or deductions that exceed the annual limit defined in Article X, Section 18(e) of the Missouri Constitution. For fiscal year 2008, that limit is an estimated \$86 million.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-15)**

Subject

Initiative petition from Troy Stremming to amend various chapters of the Missouri Revised Statutes. (Received January 25, 2008)

Date

February 14, 2008

Description

This proposal would enact the "The Schools First Elementary and Secondary Education Funding Initiative" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Missouri Gaming Commission**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Clay County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Cape Girardeau**, the **City of Kansas City**, the **City of St. Joseph**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated that implementing this proposal would not directly affect their office. However, they assumed that because this proposal has the potential to be the subject of state litigation, potential costs are unknown.

Officials from the **Department of Economic Development** indicated the proposal should have no direct administrative or fiscal impact on their department.

Officials from the **Department of Higher Education** indicated that this initiative would have no foreseeable direct fiscal impact on their department.

The **Department of Health and Senior Services** indicated no impact for their agency.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** indicated the proposal will have no fiscal impact their department.

Officials from the **Department of Natural Resources** indicated this initiative does not appear to have any direct fiscal impact on their agency.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** indicated this petition has no fiscal impact on their agency.

The **Department of Revenue** indicated the proposal will have no impact to their department.

The **Department of Public Safety** indicated there is no fiscal impact for the director's office. The department forwarded the request to the Veterans Commission and National Guard for their possible response.

Officials from the **Department of Public Safety-Missouri Veterans Commission** indicated this proposal has no impact to the commission.

Officials from the **Department of Public Safety-Missouri Adjutant General** indicated this proposal does not impact their division and any proceeds received by their office.

Officials from the **Department of Public Safety-Missouri Gaming Commission** provided the following information regarding the estimated tax and fee impact as a result of the \$500 loss limit repeal and 1% tax increase:

\$500 Loss Limit Repeal and 1% Tax Increase

Estimated Tax & Fee Impact

	AGR	State AGR Tax	Local AGR Tax	Patrons	WPP	New AGR Taxes	New Admissions Tax
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Missouri Boats - FY '07--BASE

\$ 1,599,686,340	\$ 287,943,541	\$ 31,993,727	23,478,176	\$ 68.14
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30% of Missouri Gaming Population

go out of state due to loss limit and confidentiality concerns -- new patron base

30,521,629

(MGC Survey data indicate that 30% of Missouri gamers go out of the State to gamble due to the intertwined issues of the loss limits and confidentiality regarding card usage)

Impact on State AGR Tax and Admission Fee

Estimate of increased AGR due to repeal of loss limits	\$ 2,079,743,786
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Estimate of increased AGR Tax @ 18% State gaming tax with loss limits repeal (<i>current state rate</i>)	\$ 374,353,882
--	----------------

Net new State AGR taxes	\$ 86,410,340
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Estimate of increased AGR Tax @ 18.9% State gaming tax (<i>increased state's share of 1% increase AGR Tax</i>)	\$ 393,071,576
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Net new State AGR taxes	\$ 105,128,034
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Estimate of net increased State Admissions Tax due to repeal of loss limits

\$ 7,043,453

Impact on Local AGR Tax and Admission Fee

Estimate of increased Local AGR Tax @ 2% State gaming tax with loss limits repeal (<i>current local rate</i>)	\$ 41,594,876
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Net new Local AGR taxes	\$ 9,601,149
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Estimate of increased AGR Tax @ 2.1% State gaming tax with loss limits repeal (<i>increased local's share of 1% increase AGR Tax</i>)	\$ 43,674,620
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Net new Local AGR taxes	\$ 11,680,893
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Estimate of net increased Local Admissions Tax due to repeal of loss limits

\$ 7,043,453

Impact of State and Local AGR Tax and Admission Fee

Estimate of increased AGR due to repeal of loss limits	\$ 2,079,743,786
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Estimate of increased State and local AGR @ 20% State and local gaming tax (<i>state and local combined</i>)	\$ 415,948,757
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Net new State and Local AGR taxes	\$ 96,011,489
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Estimate of increased State and local AGR @ 21% State and local gaming tax (<i>state and local combined with 1% increase</i>)	\$ 436,746,195
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Net new State and Local AGR taxes	\$ 116,808,927
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Estimate of net increased State and Local Admissions Tax due to repeal of Loss Limits

\$ 14,086,906

The Missouri Gaming Commission also provided estimates regarding the impact of Kansas gaming. Without passage of this proposal, they estimated that Missouri would lose between \$36.2 million and \$49.9 million annually attributable to Kansas gaming.

The **Department of Social Services** indicated the department benefits from the "Early Childhood Development, Education and Care Fund"(Section 313.835.1(3)(d) RSMo) within the "Gaming Commission Fund." The "Gaming Commission Fund" consists of license fees, penalties, administrative fees, and admission fees, not the gross receipts tax. As the initiative petition does not change Section 313.835, the Department anticipates no direct fiscal impact from this proposal.

Further the Department stated that the freeze on additional gambling licenses could limit potential growth of the industry and consequently the amount of money available to them from the "Gaming Commission Fund." However, the potential affect is unknown since the pattern of new boats or increased revenue from existing boats cannot be predicted by their agency.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal will not result in additional costs or savings to their agencies. They did provide an estimate of a statewide fiscal impact:

This proposal makes changes to the state's gaming statutes, creates a new state fund for education purposes, and changes the state adequacy target of the state's foundation formula.

If passed by the voters, Budget & Planning (B&P) assumes that this proposal will become effective December 1, 2008.

Gaming Revenues

B&P assumes that the elimination of loss limits, and the increase in AGR tax, will increase state revenues. The relaxation of identification requirements may also increase casino admissions, and therefore AGR, but B&P has no means to estimate this impact.

To estimate the increase in AGR, the gaming receipts of nearby Illinois, Indiana, and Iowa were compared to Missouri. According to reports on the websites of each state's gaming authorities, the following figures were available for each state's most recently completed reporting year.

	Receipts	Patrons	Receipts Per Patron
Missouri	1,599,686,340	23,478,176	68.14
Illinois	1,923,528,409	16,184,360	118.85
Iowa	860,076,528	15,085,924	57.01
Indiana	2,663,955,493	27,537,337	96.74
Not Missouri	5,447,560,430	58,807,621	92.63
	Increase over Missouri		36.0%

However, these three states have casinos that vary greatly in size compared to Missouri's, especially near Chicago. B&P next compared the casinos in the St. Louis area.

Casino	State	Receipts	Patrons	Receipts Per Patron
President	MO	67,269,234	1,296,365	51.89
Ameristar	MO	300,247,313	3,989,766	75.25
Harrah's	MO	325,249,730	4,306,986	75.52
Alton Belle	IL	121,690,377	1,469,301	82.82
Casino Queen	IL	174,279,291	2,103,838	82.84
	MO	692,766,277	9,593,117	72.21
	IL	295,969,668	3,573,139	82.83
		Increase over Missouri		14.7%

Based on these data, an increase of 14.7%- 36% may be expected in gaming receipts if loss limits are removed. B&P assumes a 20% increase in win per patron is the most likely case.

Further, B&P assumes an increase of 10% in total admissions as a result of the removal of loss limits, as casinos would become more attractive to gamers. This estimate is based on prior information submitted by the Missouri Gaming Commission to B&P.

The base forecast for fiscal years 2009 and 2010 includes a slight decline in admissions between these two years, reflecting the current declining trend as well as possible impacts from the anticipated opening of Kansas casinos, possibly in the spring of 2009. The base forecast, however, includes an increase in win per admission, which also reflects current trends.

B&P assumes current gamers would increase their average wagers by 20% as a result of the loss limit removal, and that new gamers attracted to Missouri facilities would also gamble at the higher rate.

For fiscal year 2009 B&P estimates this proposal would increase total gaming revenues by \$82.36 million, including \$68.84 million for state education, \$2.93 million for the state gaming commission, and \$10.58 million for local governments. For fiscal year 2010 (first full year of implementation) B&P estimates this proposal would increase total gaming revenues by \$141.11 million, including \$118.07 million for state education, \$4.96 million for the state gaming commission, and \$18.08 million for local governments.

School Funding Formula

The proposal changes the current calculation of the state adequacy target by adding the quotient of the total amount of state funds placed in the Schools First Elementary and Secondary Education Improvement Fund in the preceding fiscal year divided by the total average daily attendance of all school districts for the preceding fiscal year.

B&P assumes the change to the state adequacy target begins in fiscal year 2010 since it's the first year the calculation can be made based on the preceding fiscal year provisions in Section 163.011(18).

B&P based its estimated changes to the state adequacy target for fiscal years 2010 and 2011 on the current FY 2009 formula estimate and its calculations of the estimated increase in gaming revenues.

For FY 2010 B&P estimates the state adequacy target to increase \$83.44 per pupil and an overall cost to the formula of \$32.2 million. For fiscal year 2011 B&P estimates the state adequacy target to increase \$143.03 per pupil and an overall cost to the formula of \$75.2 million.

Estimated increased costs to the formula of \$32.3 million in FY 2010 and \$75.2 million in FY 2011 were calculated using the weighted average daily attendance from FY 2009, the best data available. Weighted average daily attendance numbers will increase for FY 2010 and FY 2011, which will result in a fiscal impact greater than \$32.3 million in FY 2010 and \$75.2 million in FY 2011. Increases in weighted average daily attendance for FY 2010 and FY 2011, and the resulting fiscal impact, cannot be estimated at this time.

Officials from the **Missouri House of Representatives** indicated this proposal has no fiscal impact relating to their operations.

The **Department of Conservation** indicated no fiscal impact would be expected to their agency as a result of this proposal.

Officials from the **Office of State Courts Administrator** indicated that this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated this initiative appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

Officials from the **State Treasurer's Office** indicated this proposal will not impact their office.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the amendment would have no fiscal impact on their organization.

The **University of Missouri** indicated this initiative petition will have no identifiable fiscal impact on their organization.

Officials from the **State Auditor's Office** indicated that 1 FTE at the Senior Auditor II level and 1 FTE at the Staff Auditor II level would be necessary to fulfill the annual audit requirements in Section 313.822(3) at cost of \$131,972 for FY 2010.

The **Yes for Schools First Coalition** provided fiscal impact information related to the proposal which is summarized as follows:

The Schools First Elementary and Secondary Education Funding Initiative will generate approximately \$130,000,000 or more annually in new state revenues to be used solely for elementary and secondary education, and \$5 million for early childhood education and other statewide programs. Local government revenues will increase by more than \$19,000,000 annually. In addition, the Coalition stated that if this measure does not pass, the impact of the recently enacted Kansas gaming law would decrease the Missouri Gaming Proceeds for Education Fund by \$47 million.

The State Auditor's Office did not receive a response from the **Department of Agriculture, Department of Elementary and Secondary Education, the Department of Transportation, Clay County, Jackson County, St. Charles County, St. Louis County, the City of Cape Girardeau, the City of Kansas City, the City of St. Joseph, the City of St. Louis, Cape Girardeau 63 School District, Hannibal School District #60, Rockwood R-VI School District, St. Louis Community College.**

Fiscal Note Summary

State governmental entities will receive an estimated \$105.1 to \$130.0 million annually for elementary and secondary education, and \$5.0 to \$7.0 million annually for higher education, early childhood development, veterans, and other programs. Local governmental entities receiving gambling boat tax and fee revenues will receive an estimated \$18.1 to \$19.0 million annually.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-17)**

Subject

Initiative petition from Steve Hunter regarding a proposed amendment to Chapter 285 of the Missouri Revised Statutes. (Received January 31, 2008)

Date

February 20, 2008

Description

This proposal would create the "Protect Missouri Employee Paychecks from Politics Act" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **St. Charles County**, the **City of Joplin**, the **City of Kirksville**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** assumes that the development of guidelines, investigation of complaints and enforcement of these new provisions would require 1 Assistant Attorney General II (salary of \$37,500/year plus related fringe benefits and expense and equipment; FY09 - \$64,198; FY10 - \$69,428; FY11 -\$71,509).

Officials from the **Department of Economic Development** indicated this proposal should have no administrative or fiscal impact on their department.

The **Department of Elementary and Secondary Education** indicated there is no state cost to the foundation formula associated with this proposal. Should the new crimes and amendments to current law result in additional fines or penalties, the department cannot know how much additional money might be collected by local governments or the Department of Revenue to distribute to schools. To the extent fine revenues exceed 2004-2005 collections, any increase in this money distributed to schools increases the deduction in the foundation formula the following year. Therefore the affected districts will see an equal decrease in the amount of funding received through the formula the following year; unless the affected districts are hold-harmless, in which case the districts will not see a decrease in the amount of funding received through the formula (any increase in fine money distributed to the hold-harmless districts will simply be additional money). An increase in the deduction (all other factors remaining constant) reduces the cost to the state of funding the formula.

Officials from the **Department of Higher Education** indicated, if passed, this initiative would have no foreseeable direct fiscal impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated that implementation of this legislation would have no fiscal impact to the department.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** stated the proposal has no fiscal impact on their department.

The **Department of Revenue** indicated the proposal will have no fiscal impact on their department.

The **Department of Public Safety** indicated no fiscal impact as a result of this initiative petition on the director's office.

The **Department of Social Services** indicated there will be no fiscal impact to their department.

Officials from the **Governor's Office/Office of Administration** indicated, if passed by the voters, this change to the statutes should not result in additional costs or savings to the Governor's Office or the Office of Administration.

Officials from the **Missouri House of Representatives** indicated this petition has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that no fiscal impact is expected to their agency as a result of this proposal.

Officials from the **Office of the State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact on their agency as a result of the proposal.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no impact on their office.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the proposal will have no fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Natural Resources**, the **Department of Transportation**, **Cole County**, **Greene County**, **St. Charles County**, the **City of Joplin**, the **City of Kirksville**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, the **University of Missouri**, **St. Louis Community College**.

Fiscal Note Summary

It is estimated this proposal will cost state governmental entities \$69,428 annually. It is estimated this proposal will have no costs or savings to local governmental entities.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-18)**

Subject

Initiative petition from Jeff Ordower regarding a proposed amendment to Chapters 208 and 143 of the Missouri Revised Statutes. (Received February 7, 2008)

Date

February 27, 2008

Description

This proposal would create "The Cover all Kids Act" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Cole County**, **Jackson County**, **Jasper County** **St. Charles County**, **St. Louis County**, the **City of Kansas City**, the **City of St. Joseph**, the **City of St. Louis**, the **City of Springfield**, the **City of West Plains**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** assume that the implementation of this proposal will create no fiscal impact for their office. However, because their office is responsible for defending such legislation in constitutionality claims, the Attorney General's Office assumes that the nature of these provisions could create a fiscal impact. As a result, their office assumes costs are unknown, but under \$100,000.

The **Department of Agriculture** indicated no impact on their department.

Officials from the **Department of Economic Development** assumes no fiscal or administrative impact from this proposal.

Officials from the **Department of Higher Education** indicated, if passed, this initiative would have no foreseeable direct fiscal impact on their department.

The **Department of Health and Senior Services** indicated this initiative petition is a no impact note for their department.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated that they relied on the eligibility estimates developed by the Department of Social Services-Family Support Division. The restoration of MO HealthNet for Kids/State Children's Health Insurance Program (SCHIP) to January 1, 2005 eligibility is as follows:

Section	Number of Eligible Children
Section 4 – Jan 1 standards	2,694
Section 4 – premium kids	16,348
Section 208.640.2	552
Section 208.640.2(2)	6,264
Section 208.640.2(3)	14,064
Section 6	60,162

The department estimates that the total number of eligible children that could access mental health services is 100,084. The annual cost per child for mental health services is \$51.71 for a total cost of \$5,175,344 (\$1,914,877 GR and \$3,260,466 FED).

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** indicated this initiative petition has no fiscal impact on their department.

The **Department of Revenue** indicated the proposal will have an impact on their department.

Section 143.431:

Changes to eliminate the single factor method of apportionment as an option for corporations and S corporations, when apportioning their income; individual income tax forms and instruction changes would be required; corporate income tax forms and instruction changes would be required; MINITS (Missouri Individual Income Tax System) system changes would be required; COINS (Corporation Income Tax System) and CAFÉ (Corporate and Franchise Entry System) system changes would be required.

Section 143.434:

Establishes language to allow “unitary” or combined filing for corporations; corporate income tax forms and instruction changes would be required.

Personal Tax would require:

(This is under the assumption that the changes impacting individual income tax filers, that have holdings in S corporations, are to also be tracked and included in the funding.)

1 Temporary Tax Employee for key-entry of the additional returns (FY 09: \$6,695, FY 10: \$8,275, FY 11: \$8,523)

1 Tax Processing Technician I for every additional 19,000 returns to be verified (FY 09: \$36,726, FY 10: \$38,724, FY 11: \$39,886)

1 Tax Processing Technician I for every additional 2,400 pieces of correspondence generated (FY 09: \$36,726, FY 10: \$38,724, FY 11: \$39,886)

Corporate Tax would require:

1 Tax Processing Technician I for every additional 5,200 returns to be verified and 2,080 pieces of correspondence generated (FY 09: \$36,726, FY 10: \$38,724, FY 11: \$39,886)

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD DOR estimates that this legislation could be implemented utilizing 2 existing Computer Information Technicians (CIT) III for 1 month for modifications to COINS and CAFÉ.

The department indicated that clarification is needed in section 143.434.9 to determine the revenue that is to be deposited into the cover all kids fund. It is unclear if this would be all revenue over and above present corporate income tax revenue that is collected as a result of combined reporting and the other provisions of section 143.434, and the changes to section 143.431.3(1), or all corporate income tax revenue collected.

Further, the department stated if the intent is to put the increased corporate tax revenue into the cover all kids fund, not all of the corporate income collected, a mechanism will need to be developed to determine how much new income is collected as a result of combined reporting and the other provisions in section 143.434. In order to determine the additional income collected, the taxpayer will have to make the computation both ways and notify the department how much “additional” tax was due as a result of this proposal. Without the taxpayer computing the tax using both computations, the department will not have a mechanism to determine the additional income collected.

Overall, the department estimates costs to GR of \$116,874 for FY 2009, \$124,446 for FY 2010, and \$128,181 for FY 2011.

Due to a lack of an economist and data, the department stated they cannot provide the revenue impact for this proposal.

The **Department of Public Safety** indicated they are unable to determine the fiscal impact for this petition and deferred to the Missouri Consolidated Health Care Plan.

The **Department of Social Services** indicated fiscal impacts on the following divisions within their department: the Family Support Division (FSD), the Missouri HealthNet Division (MHD), the Division of Legal Services (DLS), and the Information Technology Services Division (ITSD) of the Office of Administration.

Family Support Division (FSD)

	FY 09	FY 10	FY 11
GR (Cover All Kids Fund):	(\$202,000)	\$0	\$0
Federal:	\$0	\$0	\$0
Total:	(\$202,000)	\$0	\$0

Section 4 – MO HealthNet for Kids (MHK)

The Family Support Division (FSD) anticipates 2,694 children would be added to the MHK program due to affordability standards being returned to the January 1, 2005 standards. At the time the affordability standards changed as a result of SB 539 (2005), 11,774 children stopped receiving MHK. Since then, 5,418 were returned to the program with changes implemented to the affordability standard in the summer of 2006, and 3,662 children were estimated to be eligible due to changes in affordability with SB 577 (2007). $(11,774 - 5,418 - 3,662 = 2,694)$

The FSD anticipates 21,986 children who are currently required to pay a premium on the MHK program will no longer be required to pay a premium. FSD also anticipates 8,174 new cases to be found eligible or 16,348 children. This is based on the number of children who were cut from the MHK program as a result of SB 539.

Existing staff of the FSD would absorb the increase in applications and caseload size.

Section 208.640.1. - Income Limit from 150% to 225% Federal Poverty Level (FPL)

No fiscal impact to FSD

Section 208.640.2 – Presumptive Eligibility (PE)

The FSD would see an increase in the number of PE determinations made if the number of facilities increased. There would be an increase in applications for MHK, and the caseload sizes for MHK would increase. Currently, there are seven facilities making PE determinations. They approve an average of 82 PE applications per month. If the number of facilities increased to 100, FSD would see an increase in approvals to 1,200 per month. (Currently 7 facilities approve 82 PE applications, which is an average of 12 applications per facility. $100 \text{ facilities} \times 12 \text{ applications} = 1,200 \text{ applications approved per month}$.) Approximately 54% of PE approvals are approved for MHK. $1,200 \times 54\% = 648$. FSD believes 50% of these would have applied for benefits without the PE process, so there would be an increase of 324 new cases to the MHK program. Approximately 46% of the PE approvals are not approved for on-going MHK benefits. Therefore, 552 children receive MHK/PE benefits for one month. ($1,200 \times 46\% = 552$)

Existing staff of the FSD would absorb the increase in applications and caseload size.

Section 208.640.2(2) - Continuous Eligibility

FSD anticipates no fiscal impact as these children are already known to FSD. FSD anticipates a total of 6,264 children that are closed each month would be eligible for up to twelve-month continuous coverage, and would receive an average of six months of coverage. After a six-month phase in, we will have 37,582 additional kids receiving MHK coverage each month ($6,264 \times 6 \text{ months} = 37,582$). FSD arrived at the 6,264 in this manner: 13,069 children were closed from MHK program. 1,019 were closed because the children were over 18; 326 closed because they transferred to other assistance; and 3,908 were closed at the reinvestigation. 1,552 were added back to the program within 3 months of closing. ($13,069 - 1,019 - 326 - 3,908 + 1,552 = 6,264$)

Section 208.640.2(3) - Administrative Renewal

FSD anticipates 1,172 children monthly that are currently closed at reinvestigation to remain open due to the automated administrative review. The annual number of children is 14,064 ($1,172 \times 12 = 14,064$). FSD arrived at the 1,172 in this manner: There are approximately 3,908 children that are closed at reinvestigation. FSD anticipates 30% of these children would not close at reinvestigation. ($3,908 \times 30\% = 1,172$)

The Family Assistance Management Information System (FAMIS) estimates the cost to develop and implement the new pre-printed administrative review form in FAMIS to be \$24,000 (240 hours x \$100/hour).

Section 6 – Buy-In for Families Over 300% FPL

FSD would see an increase in the number of applications taken. FSD anticipates 60,162 people over 300% FPL would apply and participate in the MHK program and pay full premium. FSD arrived at the number in this manner: There are 1,588,050 children under age 19 in MO, 41% of them are above 300% FPL, and 14% of those are uninsured. FSD estimates 66% of them would participate. ($1,588,050 \times 41\% \times 14\% = 91,154 \times 66\% = 60,162$)

FSD is operating under the assumption that staff cost to maintain these cases will be offset by revenue generated from the premiums collected from participants.

There will be costs to implement changes to FAMIS to register the applications and store the application information. FAMIS estimates the cost to be \$178,000 to develop and implement the ability to register and store these applications (2000 hours x \$89/hour (average per hour rate) = \$178,000).

FSD assumes existing Central Office Program Development Specialists in the Policy Unit will be able to complete necessary policy and/or forms changes.

The start up costs assumed in FY 09 is subject to appropriation of funds to DSS. However, if no appropriation were received until FY 10, those one-time costs would be moved into FY 10, with inflation adjustment.

Missouri HealthNet Division (MHD)

	FY 09	FY 10	FY 11
GR (Cover All Kids Fund):	(\$0 - \$2,289,119)	(\$17,256,642)	(\$20,600,879)
Federal:	(\$0 - \$6,593,764)	(\$49,707,436)	(\$59,340,448)
Total:	(\$0 - \$8,882,684)	(\$66,964,078)	(\$79,941,327)

MHD assumes a fiscal impact as a result of putting this initiative petition on the ballot. The following are the assumptions and methodology used in arriving at the fiscal impact:

The department assumes new programs and changes in the MO HealthNet for Kids (MHK) could not be implemented until funds are appropriated to them. The department is also uncertain whether the state's share for the new and restored programs would be appropriated to them from GR or other funds because the department does not know what the timing would be for funds flowing into the Cover all Kids Fund, nor whether or not the revenue to that fund would be sufficient to fund the expansion.

Due to these uncertainties, the MHD costs for FY 09 are shown as a range from \$0 to 1/6th (two months, May and June) of the estimated annual cost depending on the appropriations made to the department for FY 09.

The department assumes federal State Children's Health Insurance Program (SCHIP) (Title XXI) funds are available to cover about 73% of healthcare costs. This federal grant is capped and subject to federal reauthorization.

The department further assumes that the MO HealthNet Buy-In program would not be implemented until FY 10; it is a new program that will require several months to design and implement. In addition, although premiums for families above 300% of the FPL

would be set at a level that covers the full monthly costs, the department would still need appropriation authority to start the program.

Section 4. Expansion of children's coverage to January 1, 2005 levels and expansion of coverage to uninsured children.

The FSD anticipates 2,694 children will be added to the MHK program due to affordability standards being returned to the January 1, 2005 standard. MHD cost for these children in FY10 will be \$5,145,417 (\$1,325,974 GR).

The FSD also anticipates 21,986 children who are currently required to pay a premium on the MHK program will no longer be required to pay a premium. The loss of their premiums will result in an annual cost to MHD in FY10 of \$14,113,371 (\$3,637,016 GR).

FSD anticipates that 16,348 new children will enter the program and none of them will pay a premium. MHD cost in FY10 will be \$31,223,890 (\$8,046,396 GR).

Section 208.640.1 Income Limit from 150% to 225% FPL

This section raises the income limit for parents and guardians of uninsured children from 150% to 225% FPL. There is no impact from this provision to MHD because it is included in the impact reflected in Section 4.

Section 208.640.2 Presumptive Eligibility

The FSD projects that due to the additional facilities that would determine presumptive eligibility 324 children will be approved for the presumptive eligibility period as well as for on-going coverage. About 107 of these children will pay premiums. FSD projects 552 children will be approved for the presumptive eligibility period (1 month) only and will not be approved for on-going services. None of these children will pay premiums. MHD costs are for annual coverage for the 324 children and 1 month of coverage for the 552 children. FY10 total cost is \$567,815 (\$146,326 GR).

Section 208.640.2(2) Continuous Eligibility

FSD projects 6,264 children will receive 6 months of additional coverage through this provision. About 2,060 will pay premiums. MHD cost for FY10 is \$4,645,186 (\$1,197,064 GR).

Section 208.640.2(3) Administrative Renewal

FSD projects 1,172 children each month (14,064 annually) who are currently closed at reinvestigation will remain open due to the automated renewal. About 389 will pay premiums and 783 will not. These 1,172 children will be phased in over 12 months. MHD cost in FY10 is \$11,268,399 (\$2,903,866 GR).

Section 208.640.2(4) Premium Grace Period

The provisions of the grace period are only slightly different from the current grace period. It is not anticipated that the caseload would change or that premiums and costs would be affected. Therefore, there will be no impact to the MHD.

Section 6 Buy-in for Families over 300% FPL

FSD projects a total of 60,162 people over 300% FPL will apply and participate in the MHK program and pay full premium. They will be phased in over a 12 month period. MHD assumes the full premium will cover the full cost of care therefore there will be no fiscal impact to MHD from this provision.

Division of Legal Services (DLS)

	FY 09	FY 10	FY 11
GR (Cover All Kids Fund):	(\$0 - \$6,637)	(\$31,897)	(\$32,854)
Federal:	(\$0 - \$7,190)	(\$34,555)	(\$35,591)
Total:	(\$0 - \$13,827)	(\$66,452)	(\$68,445)

The Division of Legal Services (DLS) anticipates fiscal impact if the proposal is approved by voters. The bases of the estimate follow:

As pointed out earlier, the department assumes new programs and changes in the MHK could not be implemented until funds are appropriated to the department. The department is also uncertain whether the state's share for the new and restored programs would be appropriated to them from GR or other funds because the department does not know what the timing would be for funds flowing into the Cover all Kids Fund, nor whether or not the revenue to that fund would be sufficient to fund the expansion.

Due to these uncertainties, the DLS costs for FY 09 are shown as a range from \$0 to 1/6th (two months, May and June) of the estimated annual cost depending on the appropriations made to the department for FY 09.

With reference to section 4, FSD anticipates 2,694 would be added to the MHK program due to affordability standards being returned to the January 1, 2005, standards. DLS estimates that 10% of this amount requests hearings on an annual basis. Thus, 269 people would request hearings annually. FSD also anticipates 8,174 new cases to be found eligible. Using the 10% standard, 817 cases would request hearings annually. This would result in 1,086 total hearings under this section. With a hearing officer handling an average of 900 hearings a year, the fiscal impact of this section would be 1 hearing officer (FY 10: \$66,452 for PS and E&E; \$31,897 GR, \$34,555 FED).

In section 208.640.2, FSD believes there would be an increase of 324 new cases to the MHK program under this section. Using the 10% standard, this would only be an increase of 32 cases. Existing hearing staff would absorb the increase in applications and caseload size.

The provision that allows all Missouri children in families with incomes above 300% FPL to enroll in a Missouri HealthNet program by paying a full premium will have no fiscal impact to DLS. The division assumes that there would be no hearing rights given for the application and non-payment of premiums of this group.

Information Technology Services Division (ITSD)

	FY 09	FY 10	FY 11
GR (Cover All Kids Fund):	(\$72,622)	\$0	\$0
Other State Funds:	(4,800)	\$0	\$0
Federal:	(\$28,238)	\$0	\$0
Total:	(\$105,660)	\$0	\$0

ITSD fiscal impact is a one-time cost for system changes in FY 09. However, if no appropriation were received until FY 10, those costs would be moved into FY 10. The cost is for contract labor to carry out programming tasks to accommodate changes in the FAMIS, Income Maintenance (IM), and MHD programs. A total of 620 contract labor hours at a cost of \$93 per hour will be required for FAMIS programming. For IM and MHD programming, 640 contract labor hours at a cost of \$75 per hour will be required.

A summary of the fiscal impact estimated by the department is as follows:

FY 09	GR (Cover all Kids Fund)	Other State Funds	Federal	TOTAL
FSD	(\$202,000)	\$0	\$0	\$0
MHD	(\$0-\$2,289,119)	\$0	(\$0-\$6,593,764)	(\$0-\$8,882,684)
DLS	(\$0-\$6,637)	\$0	(\$0-\$7,190)	(\$0-\$13,827)
ITSD	(\$72,622)	(\$4,800)	(\$28,238)	(\$105,660)
TOTALS	(\$274,622-\$2,570,378)	(\$4,800)	(\$28,238-\$6,629,192)	(\$105,660-\$9,002,171)

FY 10	GR (Cover all Kids Fund)	Other State Funds	Federal	TOTAL
FSD	\$0	\$0	\$0	\$0
MHD	(\$17,256,642)	\$0	(\$49,707,436)	(\$66,964,078)
DLS	(\$31,897)	\$0	(\$34,555)	(\$66,452)
ITSD	\$0	\$0	\$0	\$0
TOTALS	(\$17,288,539)	\$0	(\$49,741,991)	(\$67,030,530)

FY 11	GR (Cover all Kids Fund)	Other State Funds	Federal	TOTAL
FSD	\$0	\$0	\$0	\$0
MHD	(\$20,600,879)	\$0	(\$59,340,448)	(\$79,941,327)
DLS	(\$32,854)	\$0	(\$35,591)	(\$68,445)
ITSD	\$0	\$0	\$0	\$0
TOTALS	(\$20,633,733)	\$0	(\$59,376,039)	(\$80,009,772)

Officials from the **Governor's Office/Office of Administration** indicated if passed by the voters, this change to the statutes should not result in additional costs or savings to their departments.

Budget and Planning (B&P) defers to the Department of Social Services for the impact of the changes to the children's health insurance program.

B&P defers to the Department of Revenue for the impact of the changes to the corporate income tax. B&P notes that similar provisions were proposed in fiscal year 2004 and estimates at that time were for additional general revenues of \$77.2M related to disallowing the single factor apportionment, \$15M to require combined reporting, and \$31M related to disallowing non-Missouri source income.

The **Department of Conservation** indicated that no fiscal impact is expected to their agency as a result of this proposal.

Officials from the **Office of the State Courts Administrator** indicated this proposed initiative petition should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the

purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from **Jasper County** indicated that if this proposal were to become law the effect would be negligible on the government of Jasper County. Currently their county Health Dept. is used by children mainly for immunizations and flu vaccinations. They are reimbursed by Medicaid for administering immunizations (vaccine is currently provided by the state) and the cost of providing flu shots (they have to purchase vaccines). If health care per this proposal were expanded to include additional eligible young people and county health departments continued to be reimbursed for the costs of providing these services, then they would consider the effect on county government revenue neutral.

Officials from the **City of St. Louis** indicated the city has approximately 44,000 people uninsured. They believe it is essential to get more people covered, and that in order to keep health care system costs and emergency room costs down, St. Louis needs help preserving safety net funding. Estimates are that 10,000 children lost coverage in the City of St. Louis in 2005 and 2006. Since 2005, the cost that Saint Louis Connect Care has had to pay for outside services for the uninsured, such as hospitalization, has increased by over \$500,000.

Officials from the **City of West Plains** indicated that this measure does not appear to have any direct fiscal impact on local government.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the proposal will have no direct fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Elementary and Secondary Education**, the **Department of Natural Resources**, the **Missouri House of Representatives**, the **Department of Transportation**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Kansas City**, the **City of St. Joseph**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, the **University of Missouri**, **St. Louis Community College**.

Fiscal Note Summary

It is estimated state governmental entities will receive \$123.2 million annually for the state children's health insurance program. The estimated cost to state governmental entities is \$19.6 million annually. It is estimated this proposal will have no costs or savings to local governmental entities.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-26)**

Subject

Initiative petition from Jonathan Bunch regarding a proposed amendment to Article V of the Missouri Constitution. (Received March 10, 2008)

Date

March 27, 2008

Description

This proposal would amend Article V, Section 25 of the Missouri Constitution.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Boone County**, **Callaway County**, **Clay County**, **Cole County**, **Greene County**, **Jackson County**, **Jasper County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of St. Joseph**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal 60 School District**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated that implementation of this proposal will create no fiscal impact for their office.

Officials from the **Department of Economic Development** assume no fiscal or administrative impact from the proposal.

Officials from the **Department of Higher Education** indicated no foreseeable direct impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated the proposal will have no fiscal impact on their department.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** stated the proposal does not have a fiscal impact on their department.

The **Department of Revenue** indicated the proposal will have no impact on their department.

The **Department of Public Safety** indicated there is no fiscal impact for the director's office.

The **Department of Social Services** indicated there is no fiscal impact on their department.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to the Governor's Office. They stated that there could be an impact to the Office of Administration related to the requirement of the Commissioner to approve payment of expenses. However, they expect this amount to be minimal and absorbed within current appropriation levels for the Commissioner's Office.

The **Department of Conservation** indicated no fiscal impact is expected to their agency as a result of this proposal.

The **Office of State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact on their agency as a result of the proposal.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from **Jasper County** indicated that the enactment of this proposal would render no material cost to their county.

Officials from the **City of Columbia** indicated that no fiscal impact is expected from this proposal.

Officials from the **City of Jefferson** do not anticipate any fiscal impact should this petition become law.

Officials from the **Hannibal 60 School District** indicated this proposal would have no effect or cost or savings to their district.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact to their organization as a result of this proposal.

Officials from **Metropolitan Community College** indicated this petition would have no fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Elementary and Secondary Education**, the

Department of Natural Resources, the Missouri House of Representatives, the Department of Transportation, Boone County, Callaway County, Clay County, Cole County, Greene County, Jackson County, St. Charles County, St. Louis County, the City of Kansas City, the City of St. Joseph, the City of St. Louis, Cape Girardeau 653 School District, Rockwood R-VI School District, the University of Missouri, St. Louis Community College.

Fiscal Note Summary

It is estimated this proposal will have no costs or savings to state or local governmental entities.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-30)**

Subject

Initiative petition from Todd Jones regarding a proposed amendment to Article III of the Missouri Constitution. (Received March 20, 2008)

Date

April 9, 2008

Description

This proposal would amend Article III, Section 38 of the Missouri Constitution.

The amendment is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Tax Commission**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **Jackson County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community Colleges**, the **University of Missouri**, **St. Louis Community College**, the **University of Central Missouri**, **Harris-Stowe State University**, **Lincoln University**, **Missouri State University**, **Missouri Southern State University**, **Missouri Western State University**, **Northwest Missouri State University**, **Southeast Missouri State University**, **Truman State University**, the **Missouri Technology Corporation**, and the **Missouri Life Sciences Research Board**.

Assumptions

Officials from the **Attorney General's Office** indicated that the implementation of this proposal creates no fiscal impact for their office. However, they assumed that because this proposal has the potential to be the subject of state litigation, potential costs are unknown.

Officials from the **Department of Economic Development** indicated this proposal would have a significant negative impact on General Revenue, federal funds and local funds. The department anticipates a negative impact on public and private research institutions as well as on economic development efforts of local and regional government. In addition, they indicate that the passage of this constitutional amendment could have significant impact on small technology business growth and development.

The department assumes that placing the issue on the ballot by initiative petition will have no impact on General Revenue. However, they indicate that passage of the ballot initiative could have impact on the general revenue of this state. While the department did not make any fiscal projections, they do anticipate that this could have a significant economic impact and therefore impact general revenue.

This bill should have no known direct administrative or fiscal impact on the department. However, they do indicate there is a possibility that impact on the state general revenue could impact their agency to an unknown extent. If passed, this proposal could impact the department's mission to attract and retain business as well as grow business within the state.

The department also indicated that passage of the constitutional amendment could have significant economic impact on future research, entrepreneurship, and business development within Missouri. The department did not conduct any specific fiscal or economic projections on the impact of the constitutional amendment. However, they do anticipate that future projects and opportunities could be put at risk by passage of this amendment.

The **Department of Higher Education** indicated no foreseeable direct impact on their department resulting from this proposal.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposed amendment will have no cost to the department.

The **Department of Mental Health** indicated this initiative will have no fiscal impact on their department.

The **Department of Natural Resources** does not anticipate a direct fiscal impact from this proposal.

The **Department of Corrections** indicated no impact for their department.

The **Department of Labor and Industrial Relations** indicated the petition has no fiscal impact on the department.

The **Department of Revenue** indicated the petition will have no impact on the department.

The **Department of Public Safety** indicated there is no fiscal impact for this petition on the director's office.

The **Department of Social Services** indicated no fiscal impact to the department. The department further indicated that although they provide primary health care services to low-income Missourians, the proposal does not specify the recipient of these funds. They stated funds could be appropriated to any of several state agencies or the legislature could create a grant program to allocate money to non-governmental organizations that provide primary health care services.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to their agencies. However, there would be a budget impact for the programs currently funded from the Life Sciences Research Trust Fund (LSRTF). Those programs would either be eliminated or other funds, most likely general revenue, would be needed to replace the redirected LSRTF moneys. The LSRTF receives 25% of the annual receipts from the tobacco Master Settlement Agreement. For Fiscal Years 2008 and 2009, Budget & Planning estimates the amount to be deposited into the LSRTF to be \$37.5 million and \$38.8 million, respectively.

In addition, Budget & Planning noted the following technical issues:

The amendment does not define or limit “primary healthcare” nor “low-income Missourians” which could go well beyond the current MO HealthNet program. In addition, the General Assembly must appropriate funding prior to any disbursement. There may be an issue with having a disbursement restriction rather than an appropriation restriction.

The **Department of Conservation** indicated no fiscal impact expected to their agency as a result of proposal.

The **Office of the State Courts Administrator** indicated that the proposed initiative petition should not have a fiscal impact on the judiciary.

Officials from the **Missouri Senate** indicated that the petition appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this initiative will have no significant impact on their office.

The **State Tax Commission** indicated this petition will not impact their organization.

Officials from the **State Treasurer's Office** indicated that there is no fiscal impact on their office as a result of this petition.

Officials from the **City of Columbia** indicated that no fiscal impact is expected from this proposal.

The **City of Jefferson** indicated that they do not anticipate any fiscal impact should this petition become law.

The **City of St. Louis** indicated that the fiscal impact of the proposed constitutional amendment will be both extremely serious and extremely negative with \$14.3 million in annual lost revenue as a conservative estimate of this negative impact on the city.

The new initiative petition filed by opponents of stem cell research purports to ban "human cloning." In addition to what is commonly thought of as "human cloning"—a practice already banned by the Missouri Constitution—the amendment will ban one of the most promising new types of stem cell research, somatic cell nuclear transfer or "SCNT," a procedure for medical research or for treating disease that involves replicating (or "cloning") a patient's own skin cell in a lab dish in order to create healthy new cells to help treat his or her disease. This process is currently permitted by the Missouri Constitution but would be banned if the proposed amendment is passed. SCNT is also sometimes referred to as "therapeutic cloning" because the cells are copied for the purpose of providing or developing a therapy for a patient's disease or injury.

The economy of the City of St. Louis is closely tied to the City's image as a cutting edge center for medical research. The City of St. Louis ranks 12th in a listing of the Top 100 Cities for grants from the National Institutes of Health, with \$441 million in grants flowing into the City in 2005 from NIH sources. This \$444 million represents 85% of all NIH support flowing into the State of Missouri. These grants support our hospitals and medical schools (Washington University School of Medicine, St. Louis University, Barnes-Jewish Hospital, and St. Louis Children's Hospital), and, assuming that 60% of the funding pays salaries, account for approximately 5,300 jobs in the City. If only half of these jobs are lost—and it is a given that many of these jobs will be lost over time if this amendment is passed—the City will lose \$1.3 million in revenue each year—\$50,000 x 5,300 x 50% x .01 City earnings tax.

As the following table shows, the City's hospitals alone account for nearly 19,000 jobs in the City, and other medical, professional and scientific and technical occupations account for an additional 15,000 jobs. Thus, 34,000 of the City's 221,000 jobs—nearly 17%—are related to medical research and treatment and related professional occupations. Many additional jobs reside in the City's colleges and universities—because colleges and universities do not report their employment data in the same manner as other places of business, detailed job and wage data for colleges and is not available from the U. S. Bureau of Labor Statistics.

A threat to ban and criminalize any type of medical research puts a black cloud over our entire state. Scientists in general will view Missouri as a regressive and unfriendly place for life sciences research, and those who make careers of cutting-edge research will not locate in Missouri. In recruiting scientists and companies, perception of the research environment is very important. Some scientists have already said that they would not come to Missouri due to threats to overturn Amendment 2 and potentially criminalize research. The initiative petition now proposed will have a drastic impact on our universities and medical schools. These schools are the engines that drive both our existing medical and research facilities and the promise of a thriving concentration of young and mature science-based companies, like those who are beginning to occupy the CORTEX campus.

The proposed amendment will not only discourage growth in the institutions and businesses directly impacted by the amendment—the deleterious impact on health care over time will also impact the quality and size of our hospitals and our City's ability to attract and retain talent and employers from any industry. Quality of life, in particular quality of available medical care, has become a top issue in the selection of company locations. St. Louis enjoys access to some of the world's premier health care facilities in Washington University, the BJC Medical Center, and Saint Louis University, all of which are teaching hospitals. The regressive negative intellectual environment created by opposition to the newest medical research and treatments will certainly erode this quality of care as it will no longer be possible to attract top students for these schools and top professionals to staff the hospitals. This proposed Constitutional Amendment banning promising forms of stem cell research would also criminalize any patient who might one day get a cure from such a procedure, thus costing these hospitals patients. Again,

restricted access to the newest areas of medicine erodes the quality of life we take for granted from the great medical institutions available to us now.

RESEARCH-RELATED JOBS AND WAGES IN THE CITY OF ST. LOUIS

Source: U. S. Bureau of Labor Statistics--2006

TYPE	BUSINESSES	JOBS	TOTAL ANNUAL WAGES	% OF TOTAL BUSINESSES	% OF TOTAL JOBS	% OF TOTAL WAGE BASE
Medical Equipment & Supplies Manufacturing	15	516	19,613,949	0.19%	0.23%	0.19%
Professional, Scientific & Technical Services	889	14,642	952,212,500	11.11%	6.63%	9.12%
Hospitals	13	18,634	769,206,410	0.16%	8.43%	7.37%
TOTALS--LIFE SCIENCES RELATED:	917	33,792	1,741,032,859	11.46%	15.29%	16.67%
City of St. Louis Totals:	8,000	221,000	10,442,455,000	100.00%	100.00%	100.00%

A 10% loss of jobs in the three categories shown in the above table will cost the City more than \$10 million each year in direct loss of the 1% City earnings tax from these employees. It is also safe to say that this 10% loss will have a similar ripple effect in the thousands of other employees who serve the needs of the hospitals—laundry services, transportation, construction, wholesale food sales, and others.

In addition, passage of the proposed amendment will cost the City growth. The Battelle Institute of Cincinnati has already predicted that if current trends (absent this amendment) continue, Missouri will be eclipsed as a life science-driven economy by other states and regions. On the other hand, Battelle also predicts that if the state aggressively pursues the life sciences and makes the necessary investments over the next ten years in the research capacity and technology commercialization areas, the state would add more than 21,000 permanent jobs in life science industries, for the most part well-paid, quality employment. Conservatively assuming that one fourth of these jobs would be located in the City, given the City's predominance as a center for medical research, further assuming conservatively that each new job had a salary of \$50,000 per year, and further assuming that this salary grew by 3% each year, the loss of these new jobs to the City would cost the City an average of \$3 million per year once these jobs were fully situated. Again, it is also safe to say that this loss will have a similar ripple effect in the thousands of other employees who could be hired to serve the needs of the growing hospitals and research/development businesses—laundry services, transportation, construction, wholesale food sales, and others.

In summary, we therefore conservatively estimate that the proposed amendment will cost the City of St. Louis a minimum of \$14.3 million per year in direct general revenue—approximately 3.5% of the City's general revenue budget—and countless millions more in indirect revenue. This is a loss that the City cannot tolerate in the face of rising costs and rising service needs.

As the Battelle Institute report stated in 2003, “If Missouri does not choose its ‘fork in the road’ consciously, deliberately, and with full knowledge of the consequences, it may take a fork that neither it nor its citizenry chooses. ...one fork may take Missouri to 21,000 additional well-paying jobs, \$7.2 billion in additional gross regional product, and more than \$3.9 billion in real disposable income over the next decade. The other fork may not only cost the state these jobs, but, if the state and the private sector simply continue existing trends, it may also mean further significant job and economic losses in key life science industries such as drugs and pharmaceuticals and medical devices.”

A ban on SCNT will seriously harm the Missouri economy and its life science industry, in particular that industry in the City of St. Louis. The threat of such a ban has already caused harm in Kansas City, where the noted Stowers Institute has been unable to recruit the scientists necessary to carry out the Institute’s work. If the Institute expands in another state, Missouri will lose millions of dollars in economic benefit directly related to stem cell research that is not “human cloning.” Human cloning is currently banned by the Missouri Constitution. Opponents of stem cell research have falsely claimed that human cloning is not banned, because they also want to forbid promising medical procedures that require the copying of cells. However, the terminology, the concepts, and the distinction used in the Missouri Constitution are the same as used by America’s most respected doctors and scientists.

America’s most respected doctors and scientists believe that “reproductive cloning” should be banned, but that “therapeutic cloning” should be encouraged because it holds great medical promise to lead to cures for debilitating diseases—this is also the current philosophy espoused in the Missouri Constitution. In 2002, forty Nobel Prize Winners sent a letter to members of the U.S. Senate making this important distinction. Nobel Prize-winning Scientist Paul Berg has stated that “cloning humans and ‘therapeutic cloning’ are fundamentally different. The cloning of a human being should be prohibited. Therapeutic cloning, on the other hand, is meant to produce stem cells, not babies.” What the proposed amendment would ban is the same procedure that stem cell research opponents have tried unsuccessfully to ban in the legislature for the past five years. The passage of the “Stem Cell Amendment” in late 2006 ended the legislative battle. That battle has now moved to the voting booth with the proposal for this amendment.

In an effort to help quantify the economic impact of a new effort to undo Missouri’s constitutional research and cures protections, the Coalition for Plant and Life Sciences, the Center for Emerging Technologies, and the Nidus Center for Scientific Enterprise collaborated on a survey of St. Louis science and technology-based companies and St. Louis investment firms and organizations that specialize in investments with science-based companies. This survey sought to measure the potential impact of this new proposal.

Responses were received from eleven science and technology companies. The results, summarized below, clearly demonstrate that an overwhelming majority of the leaders of these companies would find the amendment to be a severe impediment to growing their companies in Missouri, that a majority of respondents would consider moving their

companies out of Missouri if the amendment passes, and that a majority of respondents believe that the amendment would be perceived as an anti-research initiative that would make Missouri an unattractive location for the high growth science-based companies that have become a major part of the City's bread and butter.

- 55% said the new amendment would make them less likely to keep their company in Missouri
- 45% said it would have no effect
- 0% said it would make them more likely to remain in Missouri

- 73% said the new amendment would make it more difficult to recruit scientists and other talent to Missouri
- 18% said it would have no effect
- 9% said it would make it easier to recruit scientists and other talent to Missouri

- 73% said the new amendment would make it more difficult to attract investors and capital to their company in Missouri
- 27% said it would have no effect
- 0% said it would make it easier to attract investors

- 73% said the new amendment would increase the pressure to relocate their company to another state
- 27% said it would have no effect
- 0% said it would decrease the pressure to relocate

- 73% said the new amendment would increase the likelihood that existing companies would avoid Missouri when considering whether to locate here
- 18% said it would help attract companies to Missouri
- 9% said it would have no effect

- 82% said the new amendment would make entrepreneurs considering starting a company in Missouri more likely to start their company in another state
- 18% said it would have no effect
- 0% said it would make entrepreneurs more likely to start their company in Missouri

The seven Missouri-based venture capital firm and investor organization respondents were unanimous in their agreement that this newly proposed amendment would harm Missouri's business climate by overturning our current protections for science and research.

- 100% said the new amendment would make it more difficult to relocate existing companies to Missouri
- 0% said it would be easier to relocate companies to Missouri

- 100% said the new amendment would make it more difficult to establish new companies in Missouri.
- 0% said it would be easier to establish companies in Missouri

It is important to note that none of the surveyed companies or investors is involved in stem cell research. That being the case, these results are evidence of the serious harm that this proposed amendment would wreak, not just on companies involved in stem cell research but on the wide variety of companies in Missouri that depend on scientific research for their survival and growth. Any threat to science of any type creates a chilling environment and negatively affects their business climate.

While it is not possible to quantify the results of this survey in terms of specific economic impact on the City of St. Louis, we believe these results clearly support the above assertions that if the amendment passes the City will lose both existing jobs and new opportunities, and as a result will lose, at a minimum, the \$14 million per year in revenue referenced above.

In summary, the negative impact on the amount of research and the consequential economic development emerging from the scientific research that would result from the proposed amendment would impact the City of St. Louis disproportionately: the City would suffer a very substantial reduction in scientific and medical activity and the sacrifice of significant future growth potential. As the chart above shows, medical research and treatment are extremely significant parts of St. Louis's current economy; as the CORTEX initiative and the Battelle report demonstrate, these economies are also very important parts of our future. As the survey results demonstrate, businesses involved in scientific research of all types and the businesses involved in raising capital for these research businesses would seriously question their futures in Missouri. Given the negative attitudes of businesses already ensconced in Missouri to the passage of this amendment, it is also obvious that businesses outside Missouri would have equally if not more strongly negative attitudes and would not locate in the City of St. Louis or Missouri.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact on their organization as a result of this initiative petition.

Metropolitan Community College indicated this proposed amendment would have no direct fiscal impact on their organization.

The **University of Missouri** indicated this action could have a significant, negative chilling effect on education, research, and economic development across the University of Missouri (UM) System– at all four campuses.

The proposed amendment, if adopted, would have the effect of causing agricultural research in Missouri eventually to lose up to \$200 million of research funding annually as the trust fund grows. Missouri agricultural research has currently benefited from Life Science Trust Fund support, which would not be the case should the proposed

amendment be adopted. Because agriculture is Missouri's primary enterprise, the potential results of this amendment would be felt statewide and would significantly impact the University's agricultural mission.

In the first year that the Life Sciences Research Board has distributed research grants from the Life Sciences Research Trust Fund, University of Missouri researchers have received approximately \$8.3 million. The grants support research in such diverse areas as biofuels, microalgae, bone fracture, functional foods, and bull fertility. The proposed amendment would eliminate this kind of support going forward.

The proposed amendment, if passed, is projected to have a direct impact on the University's ability to grow and sustain its research operations and meet and exceed its economic development goals. Critical to fulfilling the University of Missouri's mission as the state's public research university is the ability to recruit and retain top faculty researchers who will contribute to the research enterprise to the ultimate benefit of the state's economy. The perception that the state has a hostile attitude toward research, and thus to academic freedom, can have a dampening effect on recruitment and retention of faculty. Restrictions on research funding, such as what this amendment would impose, will have a deleterious effect on faculty perceptions and a negative impact on the University's ability to conduct cutting edge research that will extend beyond the life sciences.

Competition nationwide to attract and retain research faculty is exceedingly high. Faculty members consider many factors when deciding whether to stay in current positions or to accept offers from other states, including: supportive environment for research, level of state and private support, institutional reputation, and availability of state-of-the-art research facilities.

This amendment could also have an impact on the University's ability to support and grow commercialization of new technologies and the formation of new companies that result from the research. Grants from the Life Sciences Trust Fund were targeted to leverage agriculturally based research performed by University faculty into commercial products and new companies. Without this funding, the University's goal to increase revenues from patents and licenses from \$2.3 million in FY 2006 to \$10 million will be at risk. This would impact the University's ability to reinvest in research and technology transfer operations and in economic development ventures that benefit the entire state such as the Discovery Ridge research park and the new life sciences incubator in Columbia and the Missouri University of Science and Technology Innovation Park in Rolla. A recent MERIC economic impact analysis on Discovery Ridge indicated that continued investment in this project would yield an economic impact of \$33 billion on the state's economy.

Harris-Stowe State University indicated this petition will have no fiscal impact on their organization.

Missouri Southern State University indicated they are not a research institution and therefore this initiative would not have a fiscal impact on their organization.

Officials from **Northwest Missouri State University** determined that this measure would have no estimated costs or savings impact on their organization.

Truman State University indicated no direct fiscal impact on their organization can be identified.

The State Auditor's Office did not receive a response from the **Department of Agriculture, Department of Elementary and Secondary Education, the Missouri House of Representatives, the Department of Transportation, Cole County, Greene County, Jackson County, St. Louis County, the City of Kansas City, Cape Girardeau 63 School District, Hannibal 60 School District, Rockwood R-VI School District, St. Louis Community College, University of Central Missouri, Lincoln University, Missouri State University, Missouri Western State University, Southeast Missouri State University, the Missouri Technology Corporation, and the Missouri Life Sciences Research Board.**

Fiscal Note Summary

For fiscal year 2008, the state authorized \$13.5 million in spending from the Life Sciences Research Trust Fund to increase life science research capacity. This proposal requires the first \$200 million from the fund, annually, be spent on healthcare for low-income Missourians. The total costs or savings to state and local governmental entities are unknown.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-31)**

Subject

Initiative petition from Todd Jones regarding a proposed amendment to Article III of the Missouri Constitution. (Received March 20, 2008)

Date

April 9, 2008

Description

This proposal would amend Article III, Section 38 of the Missouri Constitution.

The amendment is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Tax Commission**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **Jackson County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community Colleges**, the **University of Missouri**, **St. Louis Community College**, the **University of Central Missouri**, **Harris-Stowe State University**, **Lincoln University**, **Missouri State University**, **Missouri Southern State University**, **Missouri Western State University**, **Northwest Missouri State University**, **Southeast Missouri State University**, **Truman State University**, the **Missouri Technology Corporation**, and the **Missouri Life Sciences Research Board**.

Brad Ketcher of the Ketcher Law Firm, LLC provided information to the State Auditor's Office.

Assumptions

Officials from the **Attorney General's Office** indicated that the implementation of this proposal creates no fiscal impact for their office. However, they assumed that because this proposal has the potential to be the subject of state litigation, potential costs are unknown.

Officials from the **Department of Economic Development** indicated this proposal would have a significant negative impact on General Revenue, federal funds and local funds. The department anticipates a negative impact on public and private research institutions as well as on economic development efforts of local and regional government. In addition, they indicate that the passage of this constitutional amendment could have significant impact on small technology business growth and development.

The department assumes that placing the issue on the ballot by initiative petition will have no impact on General Revenue. However, they indicate that passage of the ballot initiative could have impact on the general revenue of this state. While the department did not make any fiscal projections, they do anticipate that this could have a significant economic impact and therefore impact general revenue.

This bill should have no known direct administrative or fiscal impact on the department. However, they do indicate there is a possibility that impact on the state general revenue could impact their agency to an unknown extent. If passed, this proposal could impact the department's mission to attract and retain business as well as grow business within the state.

The department also indicated that passage of the constitutional amendment could have significant economic impact on future research, entrepreneurship, and business development within Missouri. The department did not conduct any specific fiscal or economic projections on the impact of the constitutional amendment. However, they do anticipate that future projects and opportunities could be put at risk by passage of this amendment.

The **Department of Higher Education** indicated no foreseeable direct impact on their department resulting from this proposal.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposed amendment will have no cost to the department.

The **Department of Mental Health** indicated this initiative will have no fiscal impact on their department.

The **Department of Natural Resources** does not anticipate a direct fiscal impact from this proposal.

The **Department of Corrections** indicated the impact of this proposal is unknown, but less than \$100,000 per year. Further, the department stated that the penalty provision component of the bill resulting in potential fiscal impact for the department, is for up to fifteen years imprisonment.

The department is unable to determine the number of people who would be convicted under the provisions of this bill and therefore the number of additional inmate beds that may be required as a consequence of passage of this proposal. Estimated construction cost for one new medium to maximum-security inmate bed is \$55,000. Utilizing this per-bed cost provides for a conservative estimate by the department, as facility start-up costs are not included and entire facilities and/or housing units would have to be constructed to cover the cost of housing new commitments resulting from the cumulative effect of various new legislation, if adopted as statute.

The department stated it cannot predict the number of new commitments which may result from the creation of the offense(s) outlined in this proposal. An increase in commitments depends on the utilization by prosecutors and the actual sentences imposed by the court.

If additional persons are sentenced to the custody of the DOC due to the provisions of this legislation, the DOC will incur a corresponding increase in operational cost either through incarceration (FY07 average of \$41.21 per inmate, per day or an annual cost of \$15,040 per inmate) or through supervision provided by the Board of Probation and Parole (FY07 average of \$2.43 per offender, per day or an annual cost of \$887 per offender).

In summary, supervision by the DOC through probation or incarceration would result in additional unknown costs to the department. Seven (7) persons would have to be incarcerated per fiscal year to exceed \$100,000 annually. Due to the narrow scope of this new crime, it is assumed the impact would be less than \$100,000 per year for the DOC.

The **Department of Labor and Industrial Relations** indicated the petition has no fiscal impact on the department.

The **Department of Revenue** indicated the petition will have no impact on the department.

The **Department of Public Safety** indicated there is no fiscal impact for this petition on the director's office.

The **Department of Social Services** indicated no fiscal impact to the department.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to their agencies.

The **Department of Conservation** indicated no fiscal impact expected to their agency as a result of proposal.

The **Office of the State Courts Administrator** indicated that the proposed initiative petition should not have a fiscal impact on the judiciary.

Officials from the **Missouri Senate** indicated that the petition appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this initiative will have no significant impact on their office.

The **State Tax Commission** indicated this petition will not impact their organization.

Officials from the **State Treasurer's Office** indicated that there is no fiscal impact on their office as a result of this petition.

Officials from the **City of Columbia** indicated that no fiscal impact is expected from this proposal.

The **City of Jefferson** indicated that they do not anticipate any fiscal impact should this petition become law.

The **City of St. Louis** indicated that the fiscal impact of the proposed constitutional amendment will be both extremely serious and extremely negative with \$14.3 million in annual lost revenue as a conservative estimate of this negative impact on the city.

The new initiative petition filed by opponents of stem cell research purports to ban “human cloning.” In addition to what is commonly thought of as “human cloning”—a practice already banned by the Missouri Constitution—the amendment will ban one of the most promising new types of stem cell research, somatic cell nuclear transfer or “SCNT,” a procedure for medical research or for treating disease that involves replicating (or “cloning”) a patient’s own skin cell in a lab dish in order to create healthy new cells to help treat his or her disease. This process is currently permitted by the Missouri Constitution but would be banned if the proposed amendment is passed. SCNT is also sometimes referred to as “therapeutic cloning” because the cells are copied for the purpose of providing or developing a therapy for a patient’s disease or injury.

The economy of the City of St. Louis is closely tied to the City’s image as a cutting edge center for medical research. The City of St. Louis ranks 12th in a listing of the Top 100 Cities for grants from the National Institutes of Health, with \$441 million in grants flowing into the City in 2005 from NIH sources. This \$444 million represents 85% of all NIH support flowing into the State of Missouri. These grants support our hospitals and medical schools (Washington University School of Medicine, St. Louis University, Barnes-Jewish Hospital, and St. Louis Children’s Hospital), and, assuming that 60% of the funding pays salaries, account for approximately 5,300 jobs in the City. If only half of these jobs are lost—and it is a given that many of these jobs will be lost over time if this amendment is passed—the City will lose \$1.3 million in revenue each year—\$50,000 x 5,300 x 50% x .01 City earnings tax.

As the following table shows, the City’s hospitals alone account for nearly 19,000 jobs in the City, and other medical, professional and scientific and technical occupations account for an additional 15,000 jobs. Thus, 34,000 of the City’s 221,000 jobs—nearly 17%—are related to medical research and treatment and related professional occupations. Many additional jobs reside in the City’s colleges and universities—because colleges and universities do not report their employment data in the same manner as other places of business, detailed job and wage data for colleges and is not available from the U. S. Bureau of Labor Statistics.

A threat to ban and criminalize any type of medical research puts a black cloud over our entire state. Scientists in general will view Missouri as a regressive and unfriendly place for life sciences research, and those who make careers of cutting-edge research will not locate in Missouri. In recruiting scientists and companies, perception of the research environment is very important. Some scientists have already said that they would not come to Missouri due to threats to overturn Amendment 2 and potentially criminalize research. The initiative petition now proposed will have a drastic impact on our universities and medical schools. These schools are the engines that drive both our existing medical and research facilities and the promise of a thriving concentration of young and mature science-based companies, like those who are beginning to occupy the CORTEX campus.

The proposed amendment will not only discourage growth in the institutions and businesses directly impacted by the amendment—the deleterious impact on health care

over time will also impact the quality and size of our hospitals and our City's ability to attract and retain talent and employers from any industry. Quality of life, in particular quality of available medical care, has become a top issue in the selection of company locations. St. Louis enjoys access to some of the world's premier health care facilities in Washington University, the BJC Medical Center, and Saint Louis University, all of which are teaching hospitals. The regressive negative intellectual environment created by opposition to the newest medical research and treatments will certainly erode this quality of care as it will no longer be possible to attract top students for these schools and top professionals to staff the hospitals. This proposed Constitutional Amendment banning promising forms of stem cell research would also criminalize any patient who might one day get a cure from such a procedure, thus costing these hospitals patients. Again, restricted access to the newest areas of medicine erodes the quality of life we take for granted from the great medical institutions available to us now.

RESEARCH-RELATED JOBS AND WAGES IN THE CITY OF ST. LOUIS

Source: U. S. Bureau of Labor Statistics--2006

TYPE	BUSINESSES	JOBS	TOTAL ANNUAL WAGES	% OF TOTAL BUSINESSES	% OF TOTAL JOBS	% OF TOTAL WAGE BASE
Medical Equipment & Supplies Manufacturing	15	516	19,613,949	0.19%	0.23%	0.19%
Professional, Scientific & Technical Services	889	14,642	952,212,500	11.11%	6.63%	9.12%
Hospitals	13	18,634	769,206,410	0.16%	8.43%	7.37%
TOTALS--LIFE SCIENCES RELATED:	917	33,792	1,741,032,859	11.46%	15.29%	16.67%
City of St. Louis Totals:	8,000	221,000	10,442,455,000	100.00%	100.00%	100.00%

A 10% loss of jobs in the three categories shown in the above table will cost the City more than \$10 million each year in direct loss of the 1% City earnings tax from these employees. It is also safe to say that this 10% loss will have a similar ripple effect in the thousands of other employees who serve the needs of the hospitals—laundry services, transportation, construction, wholesale food sales, and others.

In addition, passage of the proposed amendment will cost the City growth. The Battelle Institute of Cincinnati has already predicted that if current trends (absent this amendment) continue, Missouri will be eclipsed as a life science-driven economy by other states and regions. On the other hand, Battelle also predicts that if the state aggressively pursues the life sciences and makes the necessary investments over the next ten years in the research capacity and technology commercialization areas, the state would add more than 21,000 permanent jobs in life science industries, for the most part well-paid, quality employment. Conservatively assuming that one fourth of these jobs would be located in the City, given the City's predominance as a center for medical research, further assuming conservatively that each new job had a salary of \$50,000 per year, and further assuming that this salary grew by 3% each year, the loss of these new jobs to the City would cost the City an average of \$3 million per year once these jobs were fully situated. Again, it is also safe to say that this loss will have a similar ripple effect in the thousands

of other employees who could be hired to serve the needs of the growing hospitals and research/development businesses—laundry services, transportation, construction, wholesale food sales, and others.

In summary, we therefore conservatively estimate that the proposed amendment will cost the City of St. Louis a minimum of \$14.3 million per year in direct general revenue—approximately 3.5% of the City’s general revenue budget—and countless millions more in indirect revenue. This is a loss that the City cannot tolerate in the face of rising costs and rising service needs.

As the Battelle Institute report stated in 2003, “If Missouri does not choose its ‘fork in the road’ consciously, deliberately, and with full knowledge of the consequences, it may take a fork that neither it nor its citizenry chooses. ...one fork may take Missouri to 21,000 additional well-paying jobs, \$7.2 billion in additional gross regional product, and more than \$3.9 billion in real disposable income over the next decade. The other fork may not only cost the state these jobs, but, if the state and the private sector simply continue existing trends, it may also mean further significant job and economic losses in key life science industries such as drugs and pharmaceuticals and medical devices.”

A ban on SCNT will seriously harm the Missouri economy and its life science industry, in particular that industry in the City of St. Louis. The threat of such a ban has already caused harm in Kansas City, where the noted Stowers Institute has been unable to recruit the scientists necessary to carry out the Institute’s work. If the Institute expands in another state, Missouri will lose millions of dollars in economic benefit directly related to stem cell research that is not “human cloning.” Human cloning is currently banned by the Missouri Constitution. Opponents of stem cell research have falsely claimed that human cloning is not banned, because they also want to forbid promising medical procedures that require the copying of cells. However, the terminology, the concepts, and the distinction used in the Missouri Constitution are the same as used by America’s most respected doctors and scientists.

America’s most respected doctors and scientists believe that “reproductive cloning” should be banned, but that “therapeutic cloning” should be encouraged because it holds great medical promise to lead to cures for debilitating diseases—this is also the current philosophy espoused in the Missouri Constitution. In 2002, forty Nobel Prize Winners sent a letter to members of the U.S. Senate making this important distinction. Nobel Prize-winning Scientist Paul Berg has stated that “cloning humans and ‘therapeutic cloning’ are fundamentally different. The cloning of a human being should be prohibited. Therapeutic cloning, on the other hand, is meant to produce stem cells, not babies.” What the proposed amendment would ban is the same procedure that stem cell research opponents have tried unsuccessfully to ban in the legislature for the past five years. The passage of the “Stem Cell Amendment” in late 2006 ended the legislative battle. That battle has now moved to the voting booth with the proposal for this amendment.

In an effort to help quantify the economic impact of a new effort to undo Missouri’s constitutional research and cures protections, the Coalition for Plant and Life Sciences,

the Center for Emerging Technologies, and the Nidus Center for Scientific Enterprise collaborated on a survey of St. Louis science and technology-based companies and St. Louis investment firms and organizations that specialize in investments with science-based companies. This survey sought to measure the potential impact of this new proposal.

Responses were received from eleven science and technology companies. The results, summarized below, clearly demonstrate that an overwhelming majority of the leaders of these companies would find the amendment to be a severe impediment to growing their companies in Missouri, that a majority of respondents would consider moving their companies out of Missouri if the amendment passes, and that a majority of respondents believe that the amendment would be perceived as an anti-research initiative that would make Missouri an unattractive location for the high growth science-based companies that have become a major part of the City's bread and butter.

- 55% said the new amendment would make them less likely to keep their company in Missouri
- 45% said it would have no effect
- 0% said it would make them more likely to remain in Missouri

- 73% said the new amendment would make it more difficult to recruit scientists and other talent to Missouri
- 18% said it would have no effect
- 9% said it would make it easier to recruit scientists and other talent to Missouri

- 73% said the new amendment would make it more difficult to attract investors and capital to their company in Missouri
- 27% said it would have no effect
- 0% said it would make it easier to attract investors

- 73% said the new amendment would increase the pressure to relocate their company to another state
- 27% said it would have no effect
- 0% said it would decrease the pressure to relocate

- 73% said the new amendment would increase the likelihood that existing companies would avoid Missouri when considering whether to locate here
- 18% said it would help attract companies to Missouri
- 9% said it would have no effect

- 82% said the new amendment would make entrepreneurs considering starting a company in Missouri more likely to start their company in another state
- 18% said it would have no effect
- 0% said it would make entrepreneurs more likely to start their company in Missouri

The seven Missouri-based venture capital firm and investor organization respondents were unanimous in their agreement that this newly proposed amendment would harm Missouri's business climate by overturning our current protections for science and research.

- 100% said the new amendment would make it more difficult to relocate existing companies to Missouri
- 0% said it would be easier to relocate companies to Missouri
- 100% said the new amendment would make it more difficult to establish new companies in Missouri.
- 0% said it would be easier to establish companies in Missouri

It is important to note that none of the surveyed companies or investors is involved in stem cell research. That being the case, these results are evidence of the serious harm that this proposed amendment would wreak, not just on companies involved in stem cell research but on the wide variety of companies in Missouri that depend on scientific research for their survival and growth. Any threat to science of any type creates a chilling environment and negatively affects their business climate.

While it is not possible to quantify the results of this survey in terms of specific economic impact on the City of St. Louis, we believe these results clearly support the above assertions that if the amendment passes the City will lose both existing jobs and new opportunities, and as a result will lose, at a minimum, the \$14 million per year in revenue referenced above.

In summary, the negative impact on the amount of research and the consequential economic development emerging from the scientific research that would result from the proposed amendment would impact the City of St. Louis disproportionately: the City would suffer a very substantial reduction in scientific and medical activity and the sacrifice of significant future growth potential. As the chart above shows, medical research and treatment are extremely significant parts of St. Louis's current economy; as the CORTEX initiative and the Battelle report demonstrate, these economies are also very important parts of our future. As the survey results demonstrate, businesses involved in scientific research of all types and the businesses involved in raising capital for these research businesses would seriously question their futures in Missouri. Given the negative attitudes of businesses already ensconced in Missouri to the passage of this amendment, it is also obvious that businesses outside Missouri would have equally if not more strongly negative attitudes and would not locate in the City of St. Louis or Missouri.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact on their organization as a result of this initiative petition.

Metropolitan Community College indicated this proposed amendment would have no direct fiscal impact on their organization.

The **University of Missouri** indicated this amendment would alter the Stem Cell Amendment (Amendment 2 from 2006) to allow the legislature to punish universities and hospitals for conducting stem cell research by withholding or reducing funding for other programs and have a significant, negative chilling effect on education, research, and economic development across the University of Missouri (UM) System – at all four campuses and their academic health centers.

The proposed amendment, if passed, is projected to have a profound impact on the University's ability to grow and sustain its research operations and meet and exceed its economic development goals. Critical to fulfilling the University of Missouri's mission as the state's public research university is the ability to recruit and retain top faculty researchers who will contribute to the research enterprise to the ultimate benefit of the state's economy. The perception that the state has a hostile attitude toward research, and thus to academic freedom, can have a dampening effect on recruitment and retention of faculty. This amendment could have a deleterious effect on faculty perceptions and a negative impact on the University's ability to conduct cutting edge research that will extend beyond the life sciences.

Competition nationwide to attract and retain research faculty is exceedingly high. Faculty members consider many factors when deciding whether to stay in current positions or to accept offers from other states, including: supportive environment for research, level of state and private support, institutional reputation, and availability of state-of-the-art research facilities. A study conducted in 2006 by the National Bureau of Economic Research demonstrated the importance of attracting and retaining "research stars". These research stars in turn attracted other research stars that would concentrate in the area - increasing the number of start-up firms and economic activity in the area. The stars and the surrounding start-up firms would generate additional patents and invention disclosures – spinning off economic development with resulting growth in jobs and transforming economic activity in the area. Thus this concentrated effort results in the "rich getting richer" by virtue of the interactive effects of new ideas generating other new ideas. The proposed amendment will seriously impact the University's ability to attract and retain the "stars."

In FY 2007, the University of Missouri generated \$240 million in research expenditures from funding to faculty researchers provided by federal and private sources. The funding primarily provides for the salaries of the researchers and their research staffs, supplies and equipment, and the administrative infrastructure that supports research. Another key element of research funding is providing support for extramural training programs for graduate students and postdoctoral fellows. In a sense, these funds are used to build future scientists. If one assumes that only half of the University's research funding, or \$120 million, is in jeopardy, the direct financial loss to the University would be significant. This loss would come from top researchers leaving the University to go to institutions where there is an open and supportive climate for research and academic freedom. The economic impact on the state would be even greater because recent economic analysis* indicates that every \$1.00 in research funding brought into the state

generates almost \$2.00 in economic output and every \$1.0 million in research funding supports 17 jobs thus reducing economic output by \$240 million and impacting approximately 2000 jobs.

This amendment could also have an impact on the University's ability to support and grow commercialization of new technologies and the formation of new companies that result from the research. The University has a goal to increase revenues from patents and licenses from \$2.3 million in FY 2006 to \$10 million. This amendment would jeopardize this growth in revenues that would be used by the University to reinvest in research and technology transfer operations and in economic development ventures that benefit the entire state such as the Discovery Ridge research park and the new life sciences incubator in Columbia and the Missouri University of Science and Technology Innovation Park in Rolla. A recent MERIC economic impact analysis on Discovery Ridge indicated that continued investment in this project would yield an economic impact of \$33 billion on the state's economy.

Finally, this amendment, if passed, could have a deleterious affect on the University's ability to continue to attract leading medical researchers and physicians to its medical schools and hospitals in Columbia and Kansas City. This would compromise the ability of the University's academic health centers to sustain high quality health care for citizens in the state and to continue to develop cutting edge treatments for the most life threatening medical conditions. This could result in the loss of patients to our hospitals and clinics as citizens of the state seek health care in other states. The fiscal impact of this is difficult to quantify.

*Kaufman, J., Kalaitzandonakes, N, and Johnson, T. "The Economic Role of the University of Missouri in the State.
March 18, 2008.

Harris-Stowe State University indicated this petition will have no fiscal impact on their organization.

Missouri Southern State University indicated they are not a research institution and therefore this initiative would not have a fiscal impact on their organization.

Officials from **Northwest Missouri State University** determined that this measure would have no estimated costs or savings impact on their organization.

Truman State University indicated no direct fiscal impact on their organization can be identified.

Mr. Brad Ketcher of the Ketcher Law Firm, LLC provided fiscal impact information in opposition to the proposal which is summarized as follows:

STATE IMPACT

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
GSP Reduction	\$280m	\$403m	\$386m
Loss of Stowers Phase II			
State Tax Revenue	\$10.6m	\$15.3m	\$14.7m
Lose of Stowers Phase II (3.8% of GSP)			
GSP Reduction	\$1.7b	\$2.1b	\$2.5b
10% Chilling Effect on R&D			
State Tax Revenue	\$64.6m	\$79.8m	\$95m
10% Chilling Effect of R&D (3.8% of GSP)			

LOCAL GOVT IMPACT

	<u>Annual</u>
KC Loss of Stowers Phase II	\$339k
Personal Income	
KC Loss of Stowers Phase II	\$113k
Earnings Tax	
KC Loss of Personal Income	\$154m
10% Chilling Effect on R&D	
St. Louis Loss of Personal Income	\$331m
10% Chilling Effect on R&D	
Boone Co. Loss of Personal Income	\$20m

The State Auditor's Office did not receive a response from the **Department of Agriculture, Department of Elementary and Secondary Education, the Missouri House of Representatives, the Department of Transportation, Cole County, Greene County, Jackson County, St. Louis County, the City of Kansas City, Cape Girardeau 63 School District, Hannibal 60 School District, Rockwood R-VI School District, St. Louis Community College, University of Central Missouri, Lincoln University, Missouri State University, Missouri Western State University, Southeast Missouri State University, the Missouri Technology Corporation, and the Missouri Life Sciences Research Board.**

Fiscal Note Summary

This proposal could have a significant negative fiscal impact on state and local governmental entities if state funds for certain research activities are eliminated, reduced, denied, or withheld. However, the total costs to state and local governmental entities are unknown.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-32)**

Subject

Initiative petition from Todd Jones regarding a proposed amendment to Article III of the Missouri Constitution. (Received March 20, 2008)

Date

April 9, 2008

Description

This proposal would amend Article III, Section 38 of the Missouri Constitution.

The amendment is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Tax Commission**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **Jackson County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community Colleges**, the **University of Missouri**, **St. Louis Community College**, the **University of Central Missouri**, **Harris-Stowe State University**, **Lincoln University**, **Missouri State University**, **Missouri Southern State University**, **Missouri Western State University**, **Northwest Missouri State University**, **Southeast Missouri State University**, **Truman State University**, the **Missouri Technology Corporation**, and the **Missouri Life Sciences Research Board**.

Brad Ketcher of the Ketcher Law Firm, LLC provided information to the State Auditor's Office.

Assumptions

Officials from the **Attorney General's Office** indicated that the implementation of this proposal creates no fiscal impact for their office. However, they assumed that because this proposal has the potential to be the subject of state litigation, potential costs are unknown.

Officials from the **Department of Economic Development** indicated this proposal would have a significant negative impact on General Revenue, federal funds and local funds. The department anticipates a negative impact on public and private research institutions as well as on economic development efforts of local and regional government. In addition, they indicate that the passage of this constitutional amendment could have significant impact on small technology business growth and development.

The department assumes that placing the issue on the ballot by initiative petition will have no impact on General Revenue. However, they indicate that passage of the ballot initiative could have impact on the general revenue of this state. While the department did not make any fiscal projections, they do anticipate that this could have a significant economic impact and therefore impact general revenue.

This bill should have no known direct administrative or fiscal impact on the department. However, they do indicate there is a possibility that impact on the state general revenue could impact their agency to an unknown extent. If passed, this proposal could impact the department's mission to attract and retain business as well as grow business within the state.

The department also indicated that passage of the constitutional amendment could have significant economic impact on future research, entrepreneurship, and business development within Missouri. The department did not conduct any specific fiscal or economic projections on the impact of the constitutional amendment. However, they do anticipate that future projects and opportunities could be put at risk by passage of this amendment.

The **Department of Higher Education** indicated no foreseeable direct impact on their department resulting from this proposal.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposed amendment will have no cost to the department.

The **Department of Mental Health** indicated this initiative will have no fiscal impact on their department.

The **Department of Natural Resources** does not anticipate a direct fiscal impact from this proposal.

The **Department of Corrections** indicated the impact of this proposal is unknown, but less than \$100,000 per year. Further, the department stated that the penalty provision component of the bill resulting in potential fiscal impact for the department, is for up to fifteen years imprisonment.

The department is unable to determine the number of people who would be convicted under the provisions of this bill and therefore the number of additional inmate beds that may be required as a consequence of passage of this proposal. Estimated construction cost for one new medium to maximum-security inmate bed is \$55,000. Utilizing this per-bed cost provides for a conservative estimate by the department, as facility start-up costs are not included and entire facilities and/or housing units would have to be constructed to cover the cost of housing new commitments resulting from the cumulative effect of various new legislation, if adopted as statute.

The department stated it cannot predict the number of new commitments which may result from the creation of the offense(s) outlined in this proposal. An increase in commitments depends on the utilization by prosecutors and the actual sentences imposed by the court.

If additional persons are sentenced to the custody of the DOC due to the provisions of this legislation, the DOC will incur a corresponding increase in operational cost either through incarceration (FY07 average of \$41.21 per inmate, per day or an annual cost of \$15,040 per inmate) or through supervision provided by the Board of Probation and Parole (FY07 average of \$2.43 per offender, per day or an annual cost of \$887 per offender).

In summary, supervision by the DOC through probation or incarceration would result in additional unknown costs to the department. Seven (7) persons would have to be incarcerated per fiscal year to exceed \$100,000 annually. Due to the narrow scope of this new crime, it is assumed the impact would be less than \$100,000 per year for the DOC.

The **Department of Labor and Industrial Relations** indicated the petition has no fiscal impact on the department.

The **Department of Revenue** indicated the petition will have no impact on the department.

The **Department of Public Safety** indicated there is no fiscal impact for this petition on the director's office.

The **Department of Social Services** indicated no fiscal impact to the department.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to their agencies.

The **Department of Conservation** indicated no fiscal impact expected to their agency as a result of proposal.

The **Office of the State Courts Administrator** indicated that the proposed initiative petition should not have a fiscal impact on the judiciary.

Officials from the **Missouri Senate** indicated that the petition appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this initiative will have no significant impact on their office.

The **State Tax Commission** indicated this petition will not impact their organization.

Officials from the **State Treasurer's Office** indicated that there is no fiscal impact on their office as a result of this petition.

Officials from the **City of Columbia** indicated that no fiscal impact is expected from this proposal.

The **City of Jefferson** indicated that they do not anticipate any fiscal impact should this petition become law.

The **City of St. Louis** indicated that the fiscal impact of the proposed constitutional amendment will be both extremely serious and extremely negative with \$14.3 million in annual lost revenue as a conservative estimate of this negative impact on the city.

The new initiative petition filed by opponents of stem cell research purports to ban “human cloning.” In addition to what is commonly thought of as “human cloning”—a practice already banned by the Missouri Constitution—the amendment will ban one of the most promising new types of stem cell research, somatic cell nuclear transfer or “SCNT,” a procedure for medical research or for treating disease that involves replicating (or “cloning”) a patient’s own skin cell in a lab dish in order to create healthy new cells to help treat his or her disease. This process is currently permitted by the Missouri Constitution but would be banned if the proposed amendment is passed. SCNT is also sometimes referred to as “therapeutic cloning” because the cells are copied for the purpose of providing or developing a therapy for a patient’s disease or injury.

The economy of the City of St. Louis is closely tied to the City’s image as a cutting edge center for medical research. The City of St. Louis ranks 12th in a listing of the Top 100 Cities for grants from the National Institutes of Health, with \$441 million in grants flowing into the City in 2005 from NIH sources. This \$444 million represents 85% of all NIH support flowing into the State of Missouri. These grants support our hospitals and medical schools (Washington University School of Medicine, St. Louis University, Barnes-Jewish Hospital, and St. Louis Children’s Hospital), and, assuming that 60% of the funding pays salaries, account for approximately 5,300 jobs in the City. If only half of these jobs are lost—and it is a given that many of these jobs will be lost over time if this amendment is passed—the City will lose \$1.3 million in revenue each year—\$50,000 x 5,300 x 50% x .01 City earnings tax.

As the following table shows, the City’s hospitals alone account for nearly 19,000 jobs in the City, and other medical, professional and scientific and technical occupations account for an additional 15,000 jobs. Thus, 34,000 of the City’s 221,000 jobs—nearly 17%—are related to medical research and treatment and related professional occupations. Many additional jobs reside in the City’s colleges and universities—because colleges and universities do not report their employment data in the same manner as other places of business, detailed job and wage data for colleges and is not available from the U. S. Bureau of Labor Statistics.

A threat to ban and criminalize any type of medical research puts a black cloud over our entire state. Scientists in general will view Missouri as a regressive and unfriendly place for life sciences research, and those who make careers of cutting-edge research will not locate in Missouri. In recruiting scientists and companies, perception of the research environment is very important. Some scientists have already said that they would not come to Missouri due to threats to overturn Amendment 2 and potentially criminalize research. The initiative petition now proposed will have a drastic impact on our universities and medical schools. These schools are the engines that drive both our existing medical and research facilities and the promise of a thriving concentration of young and mature science-based companies, like those who are beginning to occupy the CORTEX campus.

The proposed amendment will not only discourage growth in the institutions and businesses directly impacted by the amendment—the deleterious impact on health care

over time will also impact the quality and size of our hospitals and our City's ability to attract and retain talent and employers from any industry. Quality of life, in particular quality of available medical care, has become a top issue in the selection of company locations. St. Louis enjoys access to some of the world's premier health care facilities in Washington University, the BJC Medical Center, and Saint Louis University, all of which are teaching hospitals. The regressive negative intellectual environment created by opposition to the newest medical research and treatments will certainly erode this quality of care as it will no longer be possible to attract top students for these schools and top professionals to staff the hospitals. This proposed Constitutional Amendment banning promising forms of stem cell research would also criminalize any patient who might one day get a cure from such a procedure, thus costing these hospitals patients. Again, restricted access to the newest areas of medicine erodes the quality of life we take for granted from the great medical institutions available to us now.

RESEARCH-RELATED JOBS AND WAGES IN THE CITY OF ST. LOUIS

Source: U. S. Bureau of Labor Statistics--2006

TYPE	BUSINESSES	JOBS	TOTAL ANNUAL WAGES	% OF TOTAL BUSINESSES	% OF TOTAL JOBS	% OF TOTAL WAGE BASE
Medical Equipment & Supplies Manufacturing	15	516	19,613,949	0.19%	0.23%	0.19%
Professional, Scientific & Technical Services	889	14,642	952,212,500	11.11%	6.63%	9.12%
Hospitals	13	18,634	769,206,410	0.16%	8.43%	7.37%
TOTALS--LIFE SCIENCES RELATED:	917	33,792	1,741,032,859	11.46%	15.29%	16.67%
City of St. Louis Totals:	8,000	221,000	10,442,455,000	100.00%	100.00%	100.00%

A 10% loss of jobs in the three categories shown in the above table will cost the City more than \$10 million each year in direct loss of the 1% City earnings tax from these employees. It is also safe to say that this 10% loss will have a similar ripple effect in the thousands of other employees who serve the needs of the hospitals—laundry services, transportation, construction, wholesale food sales, and others.

In addition, passage of the proposed amendment will cost the City growth. The Battelle Institute of Cincinnati has already predicted that if current trends (absent this amendment) continue, Missouri will be eclipsed as a life science-driven economy by other states and regions. On the other hand, Battelle also predicts that if the state aggressively pursues the life sciences and makes the necessary investments over the next ten years in the research capacity and technology commercialization areas, the state would add more than 21,000 permanent jobs in life science industries, for the most part well-paid, quality employment. Conservatively assuming that one fourth of these jobs would be located in the City, given the City's predominance as a center for medical research, further assuming conservatively that each new job had a salary of \$50,000 per year, and further assuming that this salary grew by 3% each year, the loss of these new jobs to the City would cost the City an average of \$3 million per year once these jobs were fully situated. Again, it is also safe to say that this loss will have a similar ripple effect in the thousands

of other employees who could be hired to serve the needs of the growing hospitals and research/development businesses—laundry services, transportation, construction, wholesale food sales, and others.

In summary, we therefore conservatively estimate that the proposed amendment will cost the City of St. Louis a minimum of \$14.3 million per year in direct general revenue—approximately 3.5% of the City’s general revenue budget—and countless millions more in indirect revenue. This is a loss that the City cannot tolerate in the face of rising costs and rising service needs.

As the Battelle Institute report stated in 2003, “If Missouri does not choose its ‘fork in the road’ consciously, deliberately, and with full knowledge of the consequences, it may take a fork that neither it nor its citizenry chooses. ...one fork may take Missouri to 21,000 additional well-paying jobs, \$7.2 billion in additional gross regional product, and more than \$3.9 billion in real disposable income over the next decade. The other fork may not only cost the state these jobs, but, if the state and the private sector simply continue existing trends, it may also mean further significant job and economic losses in key life science industries such as drugs and pharmaceuticals and medical devices.”

A ban on SCNT will seriously harm the Missouri economy and its life science industry, in particular that industry in the City of St. Louis. The threat of such a ban has already caused harm in Kansas City, where the noted Stowers Institute has been unable to recruit the scientists necessary to carry out the Institute’s work. If the Institute expands in another state, Missouri will lose millions of dollars in economic benefit directly related to stem cell research that is not “human cloning.” Human cloning is currently banned by the Missouri Constitution. Opponents of stem cell research have falsely claimed that human cloning is not banned, because they also want to forbid promising medical procedures that require the copying of cells. However, the terminology, the concepts, and the distinction used in the Missouri Constitution are the same as used by America’s most respected doctors and scientists.

America’s most respected doctors and scientists believe that “reproductive cloning” should be banned, but that “therapeutic cloning” should be encouraged because it holds great medical promise to lead to cures for debilitating diseases—this is also the current philosophy espoused in the Missouri Constitution. In 2002, forty Nobel Prize Winners sent a letter to members of the U.S. Senate making this important distinction. Nobel Prize-winning Scientist Paul Berg has stated that “cloning humans and ‘therapeutic cloning’ are fundamentally different. The cloning of a human being should be prohibited. Therapeutic cloning, on the other hand, is meant to produce stem cells, not babies.” What the proposed amendment would ban is the same procedure that stem cell research opponents have tried unsuccessfully to ban in the legislature for the past five years. The passage of the “Stem Cell Amendment” in late 2006 ended the legislative battle. That battle has now moved to the voting booth with the proposal for this amendment.

In an effort to help quantify the economic impact of a new effort to undo Missouri’s constitutional research and cures protections, the Coalition for Plant and Life Sciences,

the Center for Emerging Technologies, and the Nidus Center for Scientific Enterprise collaborated on a survey of St. Louis science and technology-based companies and St. Louis investment firms and organizations that specialize in investments with science-based companies. This survey sought to measure the potential impact of this new proposal.

Responses were received from eleven science and technology companies. The results, summarized below, clearly demonstrate that an overwhelming majority of the leaders of these companies would find the amendment to be a severe impediment to growing their companies in Missouri, that a majority of respondents would consider moving their companies out of Missouri if the amendment passes, and that a majority of respondents believe that the amendment would be perceived as an anti-research initiative that would make Missouri an unattractive location for the high growth science-based companies that have become a major part of the City's bread and butter.

- 55% said the new amendment would make them less likely to keep their company in Missouri
- 45% said it would have no effect
- 0% said it would make them more likely to remain in Missouri

- 73% said the new amendment would make it more difficult to recruit scientists and other talent to Missouri
- 18% said it would have no effect
- 9% said it would make it easier to recruit scientists and other talent to Missouri

- 73% said the new amendment would make it more difficult to attract investors and capital to their company in Missouri
- 27% said it would have no effect
- 0% said it would make it easier to attract investors

- 73% said the new amendment would increase the pressure to relocate their company to another state
- 27% said it would have no effect
- 0% said it would decrease the pressure to relocate

- 73% said the new amendment would increase the likelihood that existing companies would avoid Missouri when considering whether to locate here
- 18% said it would help attract companies to Missouri
- 9% said it would have no effect

- 82% said the new amendment would make entrepreneurs considering starting a company in Missouri more likely to start their company in another state
- 18% said it would have no effect
- 0% said it would make entrepreneurs more likely to start their company in Missouri

The seven Missouri-based venture capital firm and investor organization respondents were unanimous in their agreement that this newly proposed amendment would harm Missouri's business climate by overturning our current protections for science and research.

- 100% said the new amendment would make it more difficult to relocate existing companies to Missouri
- 0% said it would be easier to relocate companies to Missouri
- 100% said the new amendment would make it more difficult to establish new companies in Missouri.
- 0% said it would be easier to establish companies in Missouri

It is important to note that none of the surveyed companies or investors is involved in stem cell research. That being the case, these results are evidence of the serious harm that this proposed amendment would wreak, not just on companies involved in stem cell research but on the wide variety of companies in Missouri that depend on scientific research for their survival and growth. Any threat to science of any type creates a chilling environment and negatively affects their business climate.

While it is not possible to quantify the results of this survey in terms of specific economic impact on the City of St. Louis, we believe these results clearly support the above assertions that if the amendment passes the City will lose both existing jobs and new opportunities, and as a result will lose, at a minimum, the \$14 million per year in revenue referenced above.

In summary, the negative impact on the amount of research and the consequential economic development emerging from the scientific research that would result from the proposed amendment would impact the City of St. Louis disproportionately: the City would suffer a very substantial reduction in scientific and medical activity and the sacrifice of significant future growth potential. As the chart above shows, medical research and treatment are extremely significant parts of St. Louis's current economy; as the CORTEX initiative and the Battelle report demonstrate, these economies are also very important parts of our future. As the survey results demonstrate, businesses involved in scientific research of all types and the businesses involved in raising capital for these research businesses would seriously question their futures in Missouri. Given the negative attitudes of businesses already ensconced in Missouri to the passage of this amendment, it is also obvious that businesses outside Missouri would have equally if not more strongly negative attitudes and would not locate in the City of St. Louis or Missouri.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact on their organization as a result of this initiative petition.

Metropolitan Community College indicated this proposed amendment would have no direct fiscal impact on their organization.

The **University of Missouri** indicated this amendment would completely repeal the Stem Cell Amendment (Amendment 2 from 2006) and have a significant, negative chilling effect on education, research, and economic development across the University of Missouri System – at all four campuses and their academic health centers.

The proposed amendment if passed is projected to have a profound impact on the University's ability to grow and sustain its research operations and meet and exceed its economic development goals. Critical to fulfilling the University of Missouri's mission as the state's public research university is the ability to recruit and retain top faculty researchers who will contribute to the research enterprise to the ultimate benefit of the state's economy. The perception that the state has a hostile attitude toward research, and thus to academic freedom, can have a dampening effect on recruitment and retention of faculty. This amendment would have a deleterious effect on faculty perceptions and a negative impact on the University's ability to conduct cutting edge research that will extend beyond the life sciences.

Competition nationwide to attract and retain research faculty is exceedingly high. Faculty members consider many factors when deciding whether to stay in current positions or to accept offers from other states, including: supportive environment for research, level of state and private support, institutional reputation, and availability of state-of-the-art research facilities. A study conducted in 2006 by the National Bureau of Economic Research demonstrated the importance of attracting and retaining "research stars". These research stars in turn attracted other research stars that would concentrate in the area - increasing the number of start-up firms and economic activity in the area. The stars and the surrounding start-up firms would generate additional patents and invention disclosures – spinning off economic development with resulting growth in jobs and transforming economic activity in the area. Thus this concentrated effort results in the "rich getting richer" by virtue of the interactive effects of new ideas generating other new ideas. The proposed amendment will seriously impact the University's ability to attract and retain the "stars."

In FY 2007, the University of Missouri generated \$240 million in research expenditures from funding to faculty researchers provided by federal and private sources. The funding primarily provides for the salaries of the researchers and their research staffs, supplies and equipment, and the administrative infrastructure that supports research. If one assumes only half of the University's research funding, or \$120 million, is in jeopardy, the direct financial loss to the University would be significant. This loss would come from top researchers leaving the University to go to institutions where there is an open and supportive climate for research and academic freedom. The economic impact on the state would be even greater because recent economic analysis* indicates that every \$1.00 in research funding brought into the state generates almost \$2.00 in economic output and every \$1.0 million in research funding supports 17 jobs thus reducing economic output by \$240 million and impacting approximately 2000 jobs.

This amendment could also have an impact on the University's ability to support and grow commercialization of new technologies and the formation of new companies that result from the research. The University has a goal to increase revenues from patents and licenses from \$2.3 million in FY 2006 to \$10 million. This amendment would jeopardize this growth in revenues that would be used by the University to reinvest in research and technology transfer operations and in economic development ventures that benefit the entire state such as the Discovery Ridge research park and the new life sciences incubator in Columbia and the Missouri University of Science and Technology Innovation Park in Rolla. A recent MERIC economic impact analysis on Discovery Ridge indicated that continued investment in this project would yield an economic impact of \$33 billion on the state's economy.

Finally, this amendment, if passed, could have a deleterious affect on the University's ability to continue to attract leading medical researchers and physicians to its medical schools and hospitals in Columbia and Kansas City. This would compromise the ability of the University's academic health centers to sustain high quality health care for citizens in the state and to continue to develop cutting edge treatments for the most life threatening medical conditions. This could result in the loss of patients to our hospitals and clinics as citizens of the state seek health care in other states. The fiscal impact of this is difficult to quantify.

*Kaufman, J., Kalaitzandonakes, N, and Johnson, T. "The Economic Role of the University of Missouri in the State. March 18, 2008.

Harris-Stowe State University indicated this petition will have no fiscal impact on their organization.

Missouri Southern State University indicated they are not a research institution and therefore this initiative would not have a fiscal impact on their organization.

Officials from **Northwest Missouri State University** determined that this measure would have no estimated costs or savings impact on their organization.

Truman State University indicated no direct fiscal impact on their organization can be identified.

Mr. Brad Ketcher of the Ketcher Law Firm, LLC provided fiscal impact information in opposition to the proposal which is summarized as follows:

STATE IMPACT

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
GSP Reduction	\$280m	\$403m	\$386m
Loss of Stowers Phase II			
State Tax Revenue	\$10.6m	\$15.3m	\$14.7m
Lose of Stowers Phase II			

(3.8% of GSP)			
GSP Reduction	\$1.7b	\$2.1b	\$2.5b
10% Chilling Effect on R&D			
State Tax Revenue	\$64.6m	\$79.8m	\$95m
10% Chilling Effect of R&D (3.8% of GSP)			
LOCAL GOVT IMPACT			<u>Annual</u>
KC Loss of Stowers Phase II Personal Income			\$339k
KC Loss of Stowers Phase II Earnings Tax			\$113k
KC Loss of Personal Income 10% Chilling Effect on R&D			\$154m
St. Louis Loss of Personal Income 10% Chilling Effect on R&D			\$331m
Boone Co. Loss of Personal Income			\$20m

The State Auditor's Office did not receive a response from the **Department of Agriculture, Department of Elementary and Secondary Education, the Missouri House of Representatives, the Department of Transportation, Cole County, Greene County, Jackson County, St. Louis County, the City of Kansas City, Cape Girardeau 63 School District, Hannibal 60 School District, Rockwood R-VI School District, St. Louis Community College, University of Central Missouri, Lincoln University, Missouri State University, Missouri Western State University, Southeast Missouri State University, the Missouri Technology Corporation, and the Missouri Life Sciences Research Board.**

Fiscal Note Summary

This proposal could have a significant negative fiscal impact on state and local governmental entities due to the repeal of certain research activities currently authorized by the Missouri Stem Cell Research and Cures Initiative in the Missouri Constitution. However, the total costs to state and local governmental entities are unknown.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-36)**

Subject

Senate Joint Resolution No. 45 submitting to the voters a constitutional amendment relating to storm water control assistance. (Received June 17, 2008)

Date

July 3, 2008

Description

This proposal would amend Article III, Section 37 of the Missouri Constitution.

The proposal is to be voted on in November, 2008, or at a special election to be called by the governor for that purpose.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Boone County**, **Cole County**, **Jasper County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal 60 School District**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated that implementation of this proposal will create no fiscal impact for their office.

Officials from the **Department of Economic Development** assume no fiscal or administrative impact from this proposed legislation.

Officials from the **Department of Higher Education** indicated no direct, foreseeable fiscal impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this proposal.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this resolution will have no cost or savings to the department.

The **Department of Mental Health** stated the proposal will have no fiscal impact on their department.

The **Department of Natural Resources** indicated current law requires the department to provide both grants and loans using the funds resulting from the issuance of storm water control bonds. This proposal would modify this requirement so that both are no longer simultaneously required, but either one would still be permissible.

Upon voter approval, this constitutional amendment would remove the requirement that 50 percent of the storm water bond funds sold be awarded as grants and 50 percent of the bond funds be awarded as loans. The amendment would allow a reallocation of remaining funds after the initial offer has been made.

Being able to reallocate remaining funds after an initial offer, the department will be able to disperse bond proceeds in a timelier manner. Historically, potential recipients did accept the offer of loans. So, by eliminating the requirement that funds must be offered as 50 grant and 50 percent loan, the department indicated that it will be able to disperse more funds as grants.

The storm water awards from 37(h) began in FY 2000. In FY 2000, the department offered \$10M in grants and \$10M in loans. Total grant applications were \$9,893,278. Total loan applications were \$2,765,839. This trend continued for FY 2001 and 2002, the last "normal" years of storm water grant and loan offers. The total grant applications for the first three years were \$29,949,348. During those same three years, the total loan applications were \$9,544,467. Of those loan applications, \$8,011,300 in loans actually closed. Because storm water utilities are new for several Missouri communities, many eligible applicants don't have rate collection systems in place that would allow them to pay debt service on a loan. Until the constitution is amended, the department can only offer matching grants to recipients that are willing to accept a loan.

The department indicated that it needs staff to effectively administer these funds. They reported that General Revenue shortfalls in previous years resulted in staff reductions in this area. Further, the department assumed any need for additional resources would be pursued through the normal budgetary process.

The department is uncertain at this time whether staff will be requested to administer this program. However, the following four staff may be necessary (the salaries provided are estimated starting salaries adjusted for inflation for FY 2010): 1 Environmental Engineer II (\$46,913), 2 Environmental Specialist III (\$39,567 each) and 1 Accounting Specialist II (\$36,754). The fringe benefits for these positions are \$71,991 and E&E is estimated at \$1,236 for FY 2010. If all four positions were requested, the annual total salaries, fringe benefits and expenses for these staff are estimated to be \$236,028 for FY 2010.

The **Department of Labor and Industrial Relations** stated the proposal has no fiscal impact on their department.

The **Department of Revenue** indicated the proposal will have no impact on their department.

The **Department of Public Safety** indicated no known fiscal impact for their department.

The **Department of Social Services** indicated there is no fiscal impact on their department.

Officials from the **Governor's Office/Office of Administration** indicated if passed by the voters, this change to the Constitution should not result in additional costs or savings to the Governor's Office or the Office of Administration.

If passed by the voters, the amendment allows for a more timely disbursement of bond proceeds, affecting the state in two areas related to bond financing—arbitrage and defeasance. The Office of Administration estimates savings to the Board of Fund Commissioners based on the following:

Arbitrage—allowing for a more timely disbursement of bond proceeds reduces the amount (if any were required) of an arbitrage payment due to the Internal Revenue Service. Since arbitrage is a function of the interest earned by the state, the interest rate of the bond, and the timeliness of the bond proceed disbursements we are unable to provide an estimate.

Defeasance—allowing for a more timely disbursement of bond proceeds lessens and most likely eliminates the need for debt defeasance. Elimination of defeasance will save approximately \$7,500 for each occurrence (financial advisor (\$4,000), bond counsel (\$3,125), and miscellaneous expenses (\$375)).

The **House of Representatives** anticipates no fiscal impact as a result of this proposal.

The **Department of Conservation** indicated no fiscal impact is expected to their agency as a result of this proposal.

The **Office of State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated the resolution appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

The **Office of the State Public Defender** indicated this resolution will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from **Jasper County** indicated that the adoption of this amendment would have little or no financial effect on their county.

Officials from the **City of Jefferson** believe this bill would financially benefit the city through additional grants proposed herein but is unable to place a specific figure without knowledge of the funding available. Further it does not anticipate accepting loans which would increase the city's debt.

Officials from the **Hannibal 60 School District** indicated this proposal would not have any cost or savings affect on their district.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact to their organization as a result of this proposal.

Officials from **Metropolitan Community College** indicated this proposed amendment would have no significant direct fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Elementary and Secondary Education**, the **Department of Corrections**, the **Department of Transportation**, **Boone County**, **Cole County**, **St. Louis County**, the **City of Columbia**, the **City of Kansas City**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Rockwood R-VI School District**, the **University of Missouri**, **St. Louis Community College**.

Fiscal Note Summary

It is estimated the cost to state governmental entities is \$0 to \$236,000 annually. It is estimated state governmental entities will save approximately \$7,500 for each bond issuance. It is estimated local governmental entities participating in this program may experience savings, however the amount is unknown.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-37)**

Subject

Initiative petition from Tim Asher and the Missouri Civil Rights Initiative regarding a proposed constitutional amendment to Article I, Section 34. (Received November 6, 2008)

Date

November 26, 2008

Description

This proposal would amend Article I of the Missouri Constitution by adding Section 34.

The amendment is to be voted on in November, 2010.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Missouri Lottery**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Public Service Commission**, the **Office of the State Public Defender**, the **Missouri Senate**, the **Secretary of State's Office**, the **State Tax Commission**, the **State Treasurer's Office**, **Boone County**, **St. Louis County**, **Greene County**, the **City of Cape Girardeau**, the **City of Jefferson**, the **City of Kansas City**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community Colleges**, the **University of Missouri**, and **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated that any potential costs directly relating to this proposal can be absorbed with existing resources.

Officials from the **Department of Economic Development** indicated this petition would have no impact on their agency.

Officials from the **Department of Higher Education** indicated this initiative would have no direct fiscal impact on their agency.

The **Department of Health and Senior Services** indicated no impact for their department.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated passage of this initiative will have no cost or savings to their department.

Officials from the **Department of Mental Health** indicated they do not currently provide preferential treatment based on these factors and therefore indicates the implementation of this legislation would have no fiscal impact to the department.

Officials from the **Department of Corrections** indicated the impact of the initiative petition is unknown. The department stated that passage of this proposed amendment would affect the state's current purchasing practices, as minority and racial preferences are given in certain instances when awarding contracts. The department deferred to the Office of Administration-Purchasing to address procurement issues and any resulting fiscal impact on behalf of state agencies.

The **Department of Labor and Industrial Relations** indicated this petition has no fiscal impact on their department.

The **Department of Revenue** indicated this petition will have no impact on their agency.

The **Department of Public Safety** indicated there is no fiscal impact for this petition on their department.

Officials from the **Department of Social Services** indicated no fiscal impact on their agency as a result of this initiative petition. The department Human Resource Center indicated that no fiscal impact is expected as a result of the employment provisions in this proposal. The department further indicated that it abides by all state and federal laws relating to discrimination in employment and has a policy in place that prohibits discrimination in the workplace. Therefore, no cost is anticipated.

Also, the department expects no fiscal impact from the public education provision.

With respect to public contracting, there could be a fiscal impact to the department if this

proposal were interpreted to negate Executive Order 05-30, which is related to Minority Business Enterprise/Women Business Enterprise (MBE/WBE) participation. Current requests for proposals allow potential vendors to receive up to 10 bonus points if 51% or more of the vendor's employees are certified as minority and/or women. The department indicated that it would look to the Office of Administration for direction on how to manage existing contracts with MBE/WBE participation if the initiative petition passed.

Officials from the **Governor's Office/Office of Administration** indicated there would not be any fiscal impact on their agencies as a result of this amendment. However, the Office of Administration would eliminate its Minority and Women Owned Business Program established as part of the criteria in awarding state contracts. They have no way of estimating whether this would reduce or increase future contract costs.

Officials from the **Missouri House of Representatives** indicated that the initiative petition has no fiscal impact to the operations budget of their organization.

The **Department of Conservation** indicated that no fiscal impact to the department would be expected as a result of this proposal.

The **Office of State Courts Administrator** indicated that this initiative petition should not have a fiscal impact on the judiciary.

Officials from the **Department of Transportation** indicated no impact on their agency as a result of this initiative petition. Further, they stated this proposal will not prohibit actions that must be taken to establish or maintain eligibility for any federal program if ineligibility would result in the loss of federal funds. To the extent that the department gave contracting or employment preferences based on race or gender, those would be prohibited unless Federal Highway Administration and federal monies require such preferences. They do not believe federal dollars are tied to the department following a Diversified Business Enterprises program. While the department does submit a diversity plan to the Federal Highway Administration annually, they are not aware that federal dollars are tied to its implementation, or even its submittal.

Officials from the **Office of the State Public Defender** indicated this petition will have no significant impact on their agency.

Officials from the **Missouri Senate** indicated this initiative appears to have no fiscal impact on their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million

historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2009, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$1.36 million to publish (an average of \$272,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

The **State Tax Commission** indicated this petition will not impact their organization.

The **City of Jefferson** indicated that it does not anticipate any fiscal impact should this petition become law.

The **City of St. Louis** indicated this initiative petition would result in a significant fiscal impact to the City for the following reasons.

The language the petition proposes to insert into the Missouri Constitution would prohibit the "granting of preferential treatment to any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education or public contracting" by the state and "any political subdivision and any department, agency, commission, board, or other unit of a political subdivision..." Remedies for violation of this section shall be the same as or otherwise available for violations of then-existing Missouri antidiscrimination law.

As you may or may not be aware, a variety of contracting processes in the City of St. Louis operate pursuant to Mayor's Executive Order #28, as extended. This Executive Order sets forth goals for minority and women's business participation in work related to City contracts for services, supplies and development incentives, and processes that ensure maximum utilization of minority and women's businesses in performance pursuant to these contracts.

The purpose of this Executive Order is to provide a narrowly tailored remedy for historic discrimination against minority and women business owners.

In addition, the City is contemplating the adoption of legislation that would require minimum percentages of employment of minorities and women on City public works projects.

The purpose of the contemplated legislation is to provide a narrowly tailored remedy for historic discrimination against minority and women individuals.

Our interpretation of the proposed amendment is that it would (a) prohibit the City from operating pursuant to the Executive Order—e.g., it would prohibit us from setting goals

for minority and women's business participation and from using processes designed to ensure maximum utilization of such businesses, and (b) prohibit us from adopting and implementing any ordinance that required contractors to include percentages of minorities in City public works engagements.

The prohibitions set forth in the proposed amendment would significantly and negatively impact the City's economy and fiscal health in the following ways.

As you may or may not be aware, more than 50% of the City's population is comprised of members of minority groups. It is widely if not universally believed that these minority group members—in particular African-Americans—have been victims of discrimination. This belief is supported by fact: objective evidence demonstrates that minority group members have lower incomes and net worth than non-minority group members, that minority group owners are under-represented in the regional business community, that businesses owned by minority group members have lower earnings than businesses owned by non-minority group members, and that, unless prompted to do so by some sort of government encouragement, non-minorities in a position to offer opportunities to businesses do not typically offer these opportunities to minority businesses. Thus, minority group members in the St. Louis region do not have the same opportunities for either quality jobs or for successful business ownership as do non-minority group members, and this lack of opportunities translates into lower incomes for minority group members.

Since a majority of the City's population is comprised of minority group members, the lack of such opportunities impacts the City's economy and revenues in a significant way. Lower earning potential for individuals means lower disposable incomes, which in turn means lower payroll-based tax revenues and purchase-based sales tax revenues for the City.

At the time of the 2000 Census, the average income of a Caucasian household in the City of St. Louis was approximately \$33,500; the average income of an African-American household in the City was approximately \$21,000. Thus, an average African-American household in the City had an income of approximately \$12,500—or 37%—less than an average Caucasian household. Had this disparity not existed and if these incomes were equalized, the 66,300 African-American households in the City would have had an additional \$835 million in income. This additional \$835 million in income would be subject to the 1% City earnings tax, generating an additional \$8.35 million each year in City revenue. Further, if we conservatively assume that 10% of this additional income would have been spent on goods purchased in the City and subject to the City's 3.1% total sales tax, this additional income would have generated an additional \$2.6 million in City sales tax revenue. If the constitutional amendment passes, it will no longer be possible for the City to use narrowly tailored race-based preferences to address this disparity. Failure to eradicate this disparity will result in a loss of future City revenue. Thus, we estimate the long-term fiscal impact of the proposed constitutional amendment at approximately \$11 million per year, based on incomes at the time of the 2000 census.

For the past decade, the City has implemented narrowly tailored policies that are intended to remedy this discrimination. But this discrimination is firmly rooted and systemic and has existed for centuries rather than decades and cannot be remedied in a few short years. Further, the City is continually fine-tuning these narrowly tailored policies in an effort to achieve more success. We still have a long way to go in equalizing the earning power and opportunities available to our minority citizens. If the proposed initiative petition is successful, the City and other political subdivisions throughout the state would no longer be able to use the power of their governments to address issues of fairness and discrimination in our societies. Discrimination and its economic consequences would continue, jeopardizing the economic and fiscal future of the City and its citizens.

Officials from **Rockwood R-VI School District** indicated they do not believe there would be any financial cost or benefit related to this petition.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact on their organization as a result of this initiative petition.

Metropolitan Community Colleges indicated this petition would have no fiscal impact on their organization.

The **University of Missouri** indicated this initiative petition will have no identifiable fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Elementary and Secondary Education**, the **Department of Natural Resources**, the **Missouri Lottery**, the **Missouri Public Service Commission**, the **State Treasurer's Office**, **Boone County**, **St. Louis County**, **Greene County**, the **City of Cape Girardeau**, the **City of Kansas City**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, and **St. Louis Community College**.

Fiscal Note Summary

The total cost or savings to state and local governmental entities is unknown. Most state governmental entities estimate no costs or savings, however, costs or savings related to future contracts are unknown. Some local governments estimate no costs or savings, but prohibition of certain municipal policies may result in unknown costs.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-42)**

Subject

Initiative petition from Ron Calzone regarding a proposed constitutional amendment to Article VI, Section 21. (Received December 1, 2008)

Date

December 19, 2008

Description

This proposal would amend Article VI, Section 21 of the Missouri Constitution.

The amendment is to be voted on in November, 2010.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Office of the State Public Defender**, the **Missouri Senate**, the **Secretary of State's Office**, the **State Tax Commission**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **Jackson County**, **St. Louis County**, the **City of Columbia**, the **City of Gladstone**, the **City of Kansas City**, the **City of Kirkwood**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community Colleges**, the **University of Missouri**, and **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated this proposal creates no fiscal impact on their agency.

Officials from the **Department of Economic Development** indicated this petition would have no impact on their agency.

Officials from the **Department of Higher Education** indicated this initiative would have no direct, foreseeable fiscal impact on their agency.

The **Department of Health and Senior Services** indicated no impact for their department.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated passage of this initiative will have no cost or savings to their department.

Officials from the **Department of Mental Health** indicated this proposal would have no fiscal impact on their department.

The **Department of Natural Resources** does not anticipate a direct fiscal impact from this proposal.

Officials from the **Department of Corrections** indicated no impact on their agency as a result of this initiative.

The **Department of Labor and Industrial Relations** indicated this petition has no fiscal impact on their department.

The **Department of Revenue** indicated this petition will not have a fiscal impact on their agency assuming the department is not involved in placing liens on property.

The **Department of Public Safety** indicated there is no fiscal impact for this petition on their department.

Officials from the **Department of Social Services** indicated there is no fiscal impact on their agency as a result of this initiative petition.

Officials from the **Governor's Office/Office of Administration** indicated this proposal will have no fiscal impact on their agencies.

Officials from the **Missouri House of Representatives** indicated that the initiative petition has no fiscal impact to the operations budget of their organization.

The **Department of Conservation** indicated while they would not expect any immediate fiscal impact as a result of this proposal, this initiative petition could be construed as having potential adverse impact on department programs and activities.

The programs that the department provides to the public include, for example, shooting ranges, where there is noise from the discharge of firearms. In addition, effective management practices of forest and wildlife resources include such activities as the prescribed controlled burning of wildlife habitat, which involves fire and smoke, and managed timber harvests, where there is noise and disturbance from chain saws and logging trucks. It is unclear to the department whether, under the initiative petition's provisions, ordinances could be enacted to prohibit such activities, to the detriment of users of public shooting ranges and the state's forest and wildlife resources.

The **Office of State Courts Administrator** indicated that this initiative petition should not have a fiscal impact on the judiciary.

Officials from the **Department of Transportation** indicated no fiscal impact on their agency as a result of this initiative petition.

Officials from the **Office of the State Public Defender** indicated this petition will not have any significant impact on their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2009, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$1.36 million to publish (an average of \$272,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

The **State Tax Commission** indicated this petition will not impact their organization.

The **City of Columbia** indicated they cannot determine any cost or savings regarding this initiative petition.

The **City of St. Louis** indicated the initiative petition would result in significant increases in cost and significant amounts of lost revenue to the city. In addition, the following related information was provided by the city.

Article VI of the Missouri Constitution currently provides that constitutional charter cities and counties can use eminent domain for the clearance, replanning, reconstruction, redevelopment and rehabilitation of blighted, substandard or insanitary areas and for recreational and other facilities. The proposed amendment would eliminate the use of eminent domain for these purposes and substitute a provision that allows local governments to spend public funds to eradicate “nuisances” if the owner has not eradicated such nuisances within a “reasonable time” after final judgment, and then attempt to recover the public cost of such eradication by filing liens with the status of tax liens and that are subject to foreclosure in the same manner as tax liens. These proposed changes will result in an extreme cost and an extreme loss of revenue to the city. The city uses eminent domain sparingly as currently permitted by Article VI, Section 21. But it is a very important tool that is vital in their efforts to overcome hundreds of acres of blight caused by five decades of suburban flight.

In 1950, the city had 850,000 people—today, they have just over 350,000. As a result of this population loss, there are now thousands of vacant lots and structures in the City of St. Louis. As a result of this population loss, many former residences and businesses have now become vacant buildings and vacant lots. Many of these vacant properties have fallen into city ownership by default—when the private owner did not pay property tax due, the property was placed in a tax foreclosure sale, and if a private party did not bid on the property its ownership was transferred to the Land Reutilization Authority. Redeveloping this decay would be easy if all of the properties were side by side—and if all of our vacant buildings and lots were owned by the city. In fact, they are not. The city-owned properties are scattered among many properties in the hands of private owners. Too many of these privately held properties are also blighted, making it very difficult—and in some cases nearly impossible—to redevelop these run-down areas. The vast majority of our privately owned vacant buildings and lots are not maintained by their private owners.

The result is that some of the City of St. Louis' neighborhoods are the best in the State of Missouri. But, others are plagued by poverty, poor infrastructure, and violence.

The City of St. Louis has made great progress in turning some of these neighborhoods around. But, it would not have happened without the possible use of eminent domain. Other neighborhoods waiting to be redeveloped will remain

blighted if developers do not know at the beginning of a project that they will be able to complete it.

Eminent domain is needed to eradicate the vacant, abandoned, dangerous and problem properties that were left behind when half a million people left the City of St. Louis.

Even more important, the amendment will force the city to look only at individual nuisance properties, and, if the amendment becomes law, there will be no way for the city to address the redevelopment of blighted areas. The parcel-by-parcel approach contemplated by the proposed amendment will prohibit the city from engaging in the kind of developments that have the potential to put the city back on its economic feet and create value for the city and the State of Missouri. Developments like CORTEX, the new Pinnacle entertainment development, and Botanical Heights would no longer be possible—and it may not even be possible to complete those major developments that are already underway. It is critical that the city retain the ability to address blighted areas and to partner with private enterprise for the redevelopment of these blighted areas—the city cannot address the nuisances and decay that currently exist in the city using public funds alone. The reason they need redevelopment is because their tax base has eroded over the past fifty years. The city cannot reconstruct their tax base without the ability to address blighted areas, and they cannot reconstruct their tax base without partnerships with private enterprise. The proposed amendment would prohibit an area-wide approach, and it would also prohibit partnerships with private enterprise in redevelopment.

If the city is forced to address its problem and individual nuisance properties by using city funds to abate the nuisances first, before having the ability to acquire and sell the property to responsible owners, the result will be a significant additional cost to the City of St. Louis, as detailed on the attachments below. Further, since the city cannot possibly afford this cost, estimated at over \$40 million per year, these nuisances will not be abated. The proposed amendment also ignores the practical problem of the city entering onto privately owned property to abate nuisances. While they currently do this in order to demolish hazardous privately owned property, if they begin to do this to abate nuisances by engaging in property repair, both the city and any contractors hired by the city run the risk of multiple and continuing legal actions due to issues with the manner of repair and the quality of the work that do not exist in a relatively simple demolition job. Thus, the approach proposed is not only unacceptably costly—it is practically infeasible as well.

Even if this method of nuisance eradication was feasible, was affordable, and was available to the city, this approach will not permit them to solve their problems of urban decay, since much of their privately owned vacant property is obsolete. This vacant property includes both buildings and vacant lots. The buildings are vacant because they became obsolete and no one wanted to buy them or live in

them; the vacant lots typically result when a property becomes so deteriorated that it must be demolished. Over the years, the city has also come to own many such properties due to property tax and other lien foreclosures. But many of these properties remain in private ownership, even though they are for all practical purposes abandoned, because their owners pay minimal property taxes and weed and trash removal liens. Approximately 3,700 vacant buildings and 10,000 vacant lots remain in private ownership. This private ownership of abandoned property causes problems for both neighboring residents and businesses and the city and impairs the city's ability to heal itself after five decades of decay.

In addition, redevelopment of both publicly owned and privately owned vacant properties is seldom feasible without the ability to combine those parcels with other blighted property for redevelopment, since most of the city was originally platted in 25-foot frontage increments. Today, a 25-foot lot is virtually useless for any purpose, residential or commercial. The proposed amendment would render the city unable to engage in redevelopment of these properties. As detailed in the attachments, they estimate that this inability to engage in redevelopment would cost the city more than \$40 million annually, in addition to the \$40 million in additional city costs the city would incur in direct city funding of nuisance abatement.

The analysis in Attachment B provides detail on the types of costs the city would incur and the types of revenue losses the city would suffer if the amendment were to become law. Given the complexity of the issue and the amount of time available to provide this fiscal note, these figures are necessarily estimates. They believe, however, that the methodology described in Attachment B provides a reasonably accurate assessment of the fiscal impact to the City of St. Louis related to the impacts analyzed. In addition, in the interest of time, the attached assessment does not include each and every fiscal impact on the city—there are others which could be detailed if more time were available. The attached chart (Attachment A) summarizes the results of the methodologies applied in Attachment B and the estimated fiscal impact of the constitutional amendment.

As noted on the chart in Attachment A, they estimate that the total negative fiscal impact of the proposed Constitutional Amendment on the City of St. Louis is nearly (\$70 million) annually, and nearly (\$750 million) over a ten-year period. In addition, the amendment would produce a related negative fiscal impact on responsible private property owners whose property values suffer because of blight, absentee landlords, and predatory land owners.

ATTACHMENT A
SUMMARY OF FISCAL IMPACT ESTIMATE:
EMINENT DOMAIN INITIATIVE PETITION
(Estimate Details Provided on Exhibit B)

CITY OF ST. LOUIS

COST OR LOST REVENUE ITEM:	ANNUAL COST/ REVENUE LOSS:	10-YEAR COST/ REVENUE LOSS-- 2.5% ANNUAL INFLATION:	NOTES:
ESTIMATED CITY NEW/CONTINUING COSTS:			
Nuisance Identification/Abatement Management:	(\$2,725,000)	(\$31,066,152)	
Nuisance Eradication by:			
--City-Funded Repair:	(\$24,750,000)	(\$282,160,462)	
--Demolition:	(\$1,732,500)	(\$21,945,814)	
--Weed Cutting/Debris Removal:	(\$13,860,000)	(\$123,322,900)	10-year cost reduced by vacant lots assumed to be redeveloped
ESTIMATED CITY NEW/CONTINUING REVENUE LOSSES:			
Property tax impact: Negative impact of vacant/vandalized privately owned properties on adjoining property values:	(\$3,297,210)	(\$37,589,591)	
Property tax impact: Inability to make property available for private rehabilitation:	(\$458,840)	(\$5,230,969)	
Property tax impact: Inability to develop property commercially:	(\$4,740,289)	(\$54,041,293)	
Lost building permit revenue: Inability to make available for private rehabilitation:	(\$364,500)	(\$4,155,454)	
Lost sales tax revenue: Inability to develop property as retail:	(\$14,904,040)	(\$169,912,351)	
Lost earnings/payroll tax revenue: Inability to develop commercially:	(\$1,586,559)	(\$18,087,444)	
TOTALS:	(\$68,418,937)	(\$747,512,430)	

ATTACHMENT B
DETAIL AND METHODOLOGY OF FISCAL IMPACT ESTIMATE:
EMINENT DOMAIN INITIATIVE PETITION

CITY OF ST. LOUIS

PROBLEM/NUISANCE PROPERTIES:
DIRECT CITY COSTS

Most neighborhoods in the City of St. Louis have problem properties. The majority of these properties are privately owned—problems associated with the properties include criminal behavior, excessive trash and noise, collapsing walls, missing windows, open to the elements and to trespass, unsightly conditions, and a host of other issues. These properties plague responsible neighborhood residents and have serious negative impact on residential and business quality of life. While some portion of these problem properties may fall into City ownership due to property tax delinquency, the majority of them will need to be addressed in another manner, because owners continue to pay minimal property tax and retain ownership of these problem properties. The only manner in which many of these properties can be addressed is ultimately via eminent domain, which the proposed amendment eliminates as a redevelopment tool by providing that any property acquired by the City using eminent domain cannot be “sold, leased, transferred, or otherwise made available for use by a private party” for a twenty-year period after the acquisition. The following analysis assumes that the City can in fact acquire the properties and alleviate the problematic conditions and hold them for a twenty-year period, even though this will not be possible in a practical sense, and attempts to calculate the cost. If these properties cannot be addressed with eminent domain and private redevelopment, actions currently undertaken to address problem/nuisance properties will (a) need to continue for the foreseeable future; (b) will need to be multiplied to address all rather than just some of the problems; (c) the City will need to add new staff to carry out the nuisance eradication work and management of the properties. The analysis below does not calculate the additional loss of revenue the City will face as more people and business leave the City because the City is powerless to address their problem and nuisance property concerns, nor does it assume that the City will acquire the properties using eminent domain and hold them for twenty years—it assumes that the proposed amendment effectively eliminates eminent domain as a tool for dealing with problem properties, which is clearly the intent of the amendment. If eminent domain were used and the City were required to hold and operate the properties for a 20-year period, the costs would be far greater than the costs estimated below.

NUISANCE ERADICATION IDENTIFICATION AND MANAGEMENT:

Explanation: The following analysis estimates the cost of the new staff the City will need to put in place to identify problem properties and manage the eradication of the problems without the use of eminent domain and private redevelopment. This analysis assumes that 10% of the estimated nuisances that exist today will be eradicated each year.

NUISANCE ERADICATION IDENTIFICATION AND MANAGEMENT:

• Current cost of problem properties task force:	\$342,000	Actual current cost
• Cost of police officer to serve warrants:	\$60,000	Actual current cost
• Cost to increase problem properties task force by 400%:	\$1,608,000	Current cost X 4
• Cost of staff to manage eradication of 750 nuisances per year (10% of 7,500 total):	\$715,000	(10 staff x \$50K ea.; 2 attorneys @ \$75K each; 1 manager @ \$65K, including
TOTAL ESTIMATED ANNUAL COST:		\$2,725,000
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$31,066,152

NUISANCE ERADICATION BY REPAIR:

Explanation: Occupied privately owned problem properties where owners cannot be induced to make repairs via prosecution will require nuisance eradication by City-funded repair—and it will not be practical or in many cases legal to evict the occupants in order to eradicate the nuisance. The estimated number of such nuisances is 4,000. Further, it will be necessary for the City to rehabilitate some vacant privately owned properties, either because the property is located in an historic district or because the legal risks associated with demolition are too great to risk demolition at a lower cost.

NUISANCE ERADICATION BY REPAIR:

• # occupied building nuisances abated by City:	400	10% of estimated 4,000 buildings
• # vacant nuisances abated by City:	175	5% of estimated 3,500 non-LRA buildings per 2008
• Additional cost to abate occupied building nuisances:	\$10,000,000	Estimated \$25,000 per occupied
• Additional cost to abate vacant building nuisances:	\$17,500,000	Estimated \$100,000 per vacant building
TOTAL ESTIMATED ANNUAL COST:		\$27,500,000
LESS: 10% cost recovered via lien foreclosure:		(\$2,750,000)
NET ANNUAL COST:		\$24,750,000
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$282,160,462

NUISANCE ERADICATION BY DEMOLITION:

Explanation: The above analysis assumes that 50% of privately owned vacant nuisance buildings can and should be rehabilitated, and that the remaining 50% require demolition. Often privately owned vacant buildings problem properties fall into such disrepair that the only mechanism for addressing the problem is demolishing the structure on the property. If these properties cannot be addressed by eminent domain before such time as demolition is inevitable, the City will be forced to continue to spend City funds to demolish the properties. While some of the cost of demolition is recoverable through the lien and foreclosure process, this is only a small (less than 10%) portion of the cost.

NUISANCE ERADICATION BY DEMOLITION:

• # of privately owned vacant buildings requiring demolition:	175	5% of estimated 3,500 non-LRA buildings per 2008
• Average cost to demolish each privately owned vacant buildings:	\$11,000	5% of estimated 3,500 non-LRA buildings per 2008
TOTAL ESTIMATED ANNUAL COST:	\$1,925,000	
LESS: 10% cost recovered via lien foreclosure:	(\$192,500)	
NET ANNUAL COST:	\$1,732,500	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:	\$21,945,814	

NUISANCE ERADICATION BY WEED CUTTING & DEBRIS REMOVAL:

Explanation: Many privately owned problem properties are vacant; other privately owned properties have improvements but are abandoned—e.g., the owner does nothing to maintain the property. In both of these situations, City funds must be spent to remove unsightly conditions from the property so that the properties cause the least amount of harm to other properties on the block. While some of the cost of is recoverable through the lien and foreclosure process, this is only a small (less than 10%) portion of the cost. No deduction is made in this category for parcels acquired via property tax foreclosure, since once the property and the neighborhood deteriorate due to irresponsible property ownership it takes a long period of time for the property to be placed into productive use and the City must still maintain the property in the meantime to the best of the City's ability. Unlike the cost to abate nuisances, these costs cannot be spread over a number of years—maintenance must be performed annually. If liens are imposed and foreclosed upon, in most instances the private owner will not pay off the liens—thus, the property falls by default into public ownership and the City will be still responsible for maintaining the property on an ongoing basis, unless and until the City can sell the property to another private owner.

NUISANCE ERADICATION BY WEEDCUTTING & DEBRIS REMOVAL:

• # of privately owned vacant lots requiring demolition:	7,000	70% of total 10,000 vacant lots
• Average cost per lot for weedcutting/debris removal:	\$2,200	8 events/year @ \$275/event
TOTAL ESTIMATED ANNUAL COST:	\$15,400,000	
LESS: 10% cost recovered via lien foreclosure:	(\$1,540,000)	
NET ANNUAL COST:	\$13,860,000	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation, 5% inv. reduction per year:	\$123,322,900	

LOST REVENUES

NEGATIVE IMPACT ON ADJOINING PROPERTIES:

Explanation: Vacant and abandoned properties drive down the value of other properties located on the same block. The abandonment of a property is visible signal that its owners do not care about it to other owners on the block and to those who otherwise might be interested in purchasing property on the block. The City receives a high volume of complaints each year about vacant and vandalized privately owned properties. In 2005, according to the City's vacant building survey, the City had 3,751 privately owned residential vacant and vandalized buildings located on approximately 1,631 City blocks—the number of vacant and vandalized properties per block ranged from 1 to 16. The City must be able to take these properties out of the hands of

irresponsible owners who care nothing about the surrounding neighborhoods. If the City cannot do so, the City and other taxing jurisdictions will suffer from the negative impact of these problem properties on other properties forever, with no way to take back neighborhoods from owners that wreak havoc on our neighborhoods and responsible neighbors' lives. Assuming that each City block with one or more abandoned property reduces the value of other properties on the block by 10% (believed to be a conservative number in blocks that are plagued with more than one vacant and vandalized property), the cost to the City and other taxing jurisdictions in property taxes and the cost to adjacent owners in reduced property values are calculated below. No deduction is made in this category for parcels acquired via property tax or nuisance eradication lien foreclosure because the damage to neighboring property values has already been done by the time the City acquires the property through tax or nuisance eradication lien foreclosure. With eminent domain, the City has the ability (assuming funding is available) to acquire the property before damage to neighboring property values becomes irreversible.

NEGATIVE IMPACT ON ADJOINING PROPERTIES:

• Total # of City blocks (approximate):	5,771	Per City Assessor's
• Total # of parcels:	103,475	Per City Assessor's
• Average parcels/City block:	17.93	Per City Assessor's
• City blocks w/vacant & vandalized buildings:	1,618	Per City Assessor's records/ vacant
• Parcels negatively impacted by vacant buildings:	29,011	
• Average assessed value of residential parcel:	\$17,500	
• Total value parcels w/vacant buildings on block:	\$507,692,709	Parcels negatively impacted x average
• Estimated negative impact on assessed values of parcels due to vacant buildings on block:	(\$50,769,271)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ESTIMATED LOST REVENUES:	\$3,297,210	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$37,589,591	

In addition, nuisances hurt adjacent property owners by negatively impacting the value of the adjacent owners' property. This hurts owners by impairing their ability to sell or borrow against the property at a higher value.

NEGATIVE IMPACT ON MARKET VALUE OF NON-VACANT PRIVATELY OWNED PROPERTIES :	\$267,206,689	Assessed value/.19 = impact on market value
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LOST REVENUES DUE TO LACK OF PROPERTY IMPROVEMENT BY PRIVATE PARTIES:

Explanation—Vacant Building Rehabilitation: In addition to the loss of property tax associated with negative impacts on surrounding non-vacant properties, the fact that owners allow vacant and vandalized properties to deteriorate also costs the City and other taxing jurisdictions in lost tax revenue. When privately owned formerly abandoned or vacant properties are redeveloped as private property, these properties add growth to the City's tax base above and beyond the growth permitted by the Hancock Amendment. In addition, it is not reasonable to expect that the City itself would rehabilitate and occupy these properties that were formerly occupied by private parties—if the City were required to rehabilitate and occupy the properties forever, it would cost the City significant amounts of money to rehabilitate the properties, as described above, and to maintain the properties in the event that private parties do not purchase them. Further, if the City rather than private parties rehabilitates and occupies the properties (as

is required by the amendment—the City cannot take the property by eminent domain and sell it to a private owner for rehabilitation), the City will lose revenue that it would otherwise collect due to fees on improvement costs. The following factors are used below to calculate the loss of tax revenues associated with the fact that the City will be unable to encourage property improvement and tax base growth if the amendment is passed:

LOST REVENUE DUE TO LACK OF PRIVATE PROPERTY IMPROVEMENT:

• Average assessed value of privately owned vacant/vandalized building:	\$7,545	2005 value per City Assessor w/2.5%
• Average sales price--single-family home:	\$164,698	City Assessor Data--
• Average assessed value--single-family home:	\$31,293	
• Assessed value lost due to inability to make vacant buildings available for private rehabilitation:	\$23,748	
• # of privately owned vacant buildings that could be privately rehabilitated per year if available:	350	10% of total 3,500 buildings
• Total annual assessed value lost due to inability to make vacant buildings available for private rehabilitation:	(\$8,311,829)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ANNUAL ESTIMATED LOST PROPERTY TAX REVENUE:	\$539,812	
LESS: 15% to City ownership via tax foreclosure:	(\$80,972)	
NET ANNUAL COST:	\$458,840	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$5,230,969	

LOST BUILDING PERMIT FEE REVENUE:

• # of privately owned vacant buildings that could be privately rehabilitated per year if available:	350	10% of total 3,500 buildings
• Approximate average rehabilitation cost:	\$100,000	
• Approximate total rehabilitation cost:	\$35,000,000	
• Building Permit Fee rate:	\$9/\$1000	City Assessor Data--
• # of privately owned occupied buildings that could be privately rehabilitated per year if available:	400	10% of total 4,000 buildings
• Approximate average rehabilitation cost:	\$25,000	
• Approximate total rehabilitation cost:	\$10,000,000	
• Building Permit Fee rate:	\$9/\$1000	City Assessor Data--
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$405,000	
LESS: 20% private owner compliance:	(\$40,500)	
NET ANNUAL COST:	\$364,500	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$4,155,454	

Explanation—Lost Revenue due to Lack of Vacant Land Redevelopment: Many privately owned City properties are vacant lots where the improvements have been demolished, either by the City or by the private owner. These vacant lots are scabs on otherwise intact neighborhoods. In many city neighborhoods, these vacant lots outnumber parcels with improvements. In many cases, the vacant parcels, 25' wide, are flanked by other vacant properties owned by multiple owners. The City's inability to use eminent domain to assemble these vacant lots and abandoned properties and return them to productive use will result in significant lost revenues—sales tax revenues, property tax revenues and payroll/earnings tax revenues. In addition, the development of new retail and other facilities is essential to preserving the City's existing population and encouraging new residents to locate in the City. Such development is currently occurring in the

City but will come to a halt if the amendment passes. The following factors are used below to calculate the loss of tax revenues associated with the fact that the City will be unable to encourage commercial redevelopment of abandoned property and tax base growth if the amendment is passed:

LOST REVENUE DUE TO LACK OF VACANT LAND REDEVELOPMENT:

• # of privately owned vacant lots in City:	10,131	2005 City Assessor
• Average area of one (1) vacant lot:	4,687	125' x 37.5'
• Total vacant lot area:	47,483,997	125' x 37.5'
• Additional 50% City-owned vacant lots that cannot be redeveloped w/o adjacent privately owned lots:	23,741,999	
• Total developable vacant lot area:	71,225,996	
• Assume 10% of vacant lot area could be redeveloped as retail:	7,122,600	
• Assumed building coverage for retail:	25%	
• Total area not developed as retail:	1,780,650	
• Average retail sales/sq. ft./year:	\$300	
• Total retail sales lost:	\$534,194,966	
• City sales tax rate:	3.10%	City Budget Office
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$16,560,044	
LESS: 15% to City ownership tax foreclosure/other:	(\$1,656,004)	
NET ANNUAL COST:	\$14,904,040	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$169,912,351	
• Average jobs/1,000 sq. ft. retail:	3	
• Total retail jobs lost:	5,342	
• Average annual salary/retail job:	\$22,000	
• Total payroll lost:	\$117,522,893	
• City earnings/payroll tax rate:	1.50%	City Budget Office
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$1,762,843	
LESS: 15% to City ownership tax foreclosure/other:	(\$176,284)	
NET ANNUAL COST:	\$1,586,559	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$18,087,444	
• Average assessed value of privately owned vacant parcel:	\$3,772	2005 value per City Assessor w/2.5%
• Average assessed value commercial non-vacant parcel:	\$57,139	2005 value per City Assessor w/2.5%
• Assessed value difference--vacant/non-vacant:	\$53,367	
• # of privately owned vacant lots in City:	10,131	2005 City Assessor
• Additional 50% City-owned vacant lots that cannot be redeveloped w/o adjacent privately owned lots:	5,066	
• Total developable parcels:	15,197	
• Assume 10% of vacant lot area could be redeveloped as retail:	1,520	
• Total estimated assessed value increase if parcels were developed:	(\$81,099,195)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ANNUAL ESTIMATED LOST PROPERTY TAX REVENUE:	\$5,266,987	
LESS: 15% to City ownership tax foreclosure/other:	(\$526,699)	
NET ANNUAL COST:	\$4,740,289	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$54,041,293	

ATTACHMENT B (CONT)
OTHER FISCAL IMPACTS:

Non-Physical Nuisances: The proposed amendment does not clearly define “nuisance.” Non-physical nuisances (e.g., criminal activity, drugs, antisocial behavior) are difficult if not impossible to cure and cannot be cured with “eradication” activities that place a lien on the property. Often the use of eminent domain is the only way to get such a property out of the hands of problem owners and into the hands of a responsible party.

Inability to Redevelop as Higher Quality Residential Property: Much of the City’s housing stock is obsolete and unattractive to the modern housing market. Eradicating nuisances per se does not allow the City to redevelop obsolete residential property into homes that will attract modern residents. Thus, the inability to redevelop obsolete and deteriorated residential property as higher quality residential property also has a cost. This cost can be estimated but we have not taken the time to do so here.

Inability to Adequately Address Blighted Areas and Impact on Other Property: The City has been in a continuing state of decline for the past five decades. Only recently has this decline been arrested. Now the City’s problems are slowly but surely being turned into opportunities, in large part because people believe that the City is making progress and will continue to do so. This progress has been possible due in large part to the availability of eminent domain for private redevelopment. If the proposed amendment becomes effective, this progress will come to a halt, and this in turn will (a) discourage “new” investors and homeowners from giving the City a chance, and (b) discourage those who have already invested in the City from remaining. The City has many problems, and those problems are being addressed, but total transformation cannot and will not happen overnight. It is essential that the City be able to continue to make progress if the successes recently experienced are to be sustained. If eminent domain is not available as a redevelopment tool in conjunction with private redevelopment, businesses and residents will once again leave the City and the same kinds of decline, disinvestment and population loss that the City previously suffered will continue into the foreseeable future.

Officials from **Hannibal School District #60** indicated that this petition appears to be a major limitation to eminent domain which is sometimes necessary for political subdivisions. They could not determine the total cost to the school district, but estimate a cost impact of \$500,000 if a new school was built where current structures stand.

Officials from **Rockwood R-VI School District** indicated they have grave concern regarding how this law might be enforced as it relates to football fields and bands practicing as potential “nuisances.” Further, they are concerned over how they would abate. They indicated that the costs are impossible to calculate, but could be astronomical.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact on their organization as a result of this initiative petition.

Metropolitan Community Colleges indicated this petition would have no fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Elementary and Secondary Education**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **Jackson County**, **St. Louis County**, the **City of Gladstone**, the **City of Kansas City**, the **City of Kirkwood**, **Cape Girardeau 63 School District**, the **University of Missouri**, and **St. Louis Community College**.

Fiscal Note Summary

The total cost or savings to state or local governmental entities is unknown. Most state governmental entities estimate no costs, however, some state governmental entities may have unknown or indirect costs. Estimated costs, if any, to local governmental entities will vary, but could be significant.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-45)**

Subject

Initiative petition from Ed Martin regarding a proposed constitutional amendment to Article IV, Section 17. (Received December 2, 2008)

Date

December 22, 2008

Description

This proposal would amend Article IV, Section 17 of the Missouri Constitution.

The proposal is to be voted on in November, 2010.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Boone County**, **Clay County**, **Jasper County**, **St. Charles County**, the **City of Jefferson**, the **City of Kansas City**, the **City of Kirksville**, the **City of St. Louis**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, and **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated the proposal creates no fiscal impact for their office.

Officials from the **Department of Economic Development** indicated no impact from the proposal.

Officials from the **Department of Higher Education** indicated no direct, foreseeable impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal, if passed, will have no cost or savings to the department.

The **Department of Mental Health** stated the proposal will have no fiscal impact on their department.

Officials from the **Department of Natural Resources** indicated they would not anticipate a direct fiscal impact from this proposal.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Revenue** indicated the proposal will have no fiscal impact on their department.

The **Department of Public Safety** indicated there is no fiscal impact on their department.

The **Department of Social Services** indicated there is no fiscal impact on their department.

Officials from the **Governor's Office/Office of Administration** indicated this proposal will have no fiscal impact on their agencies.

Officials from the **Missouri House of Representatives** indicated no fiscal impact to the operations budget of their agency.

The **Department of Conservation** indicated no fiscal impact is expected to their agency as a result of this proposal.

The **Office of State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Department of Transportation** indicated this petition will have no fiscal impact on their department.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2009, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$1.36 million to publish (an average of \$272,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will not have any significant impact on their office.

Officials from the **City of Jefferson** indicated they do not anticipate any fiscal impact should this petition become law.

Officials from **Hannibal School District #60** indicated they are unable to determine if this petition will result in any cost savings or cost increases.

Officials from the **Rockwood R-VI School District** indicated this proposal will not have a fiscal impact on Rockwood or other school districts.

Officials from **Linn State Technical College** indicated this petition appears to have no fiscal impact on their organization.

Officials from **Metropolitan Community College** indicated this petition would have no fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Elementary and Secondary Education**, the **Department of Labor and Industrial Relations**, the **Missouri Senate**, the **State Treasurer's Office**, **Boone County**, **Clay County**, **Jasper County**, **St. Charles County**, the **City of Kansas City**, the **City of Kirksville**, the **City of St. Louis**, the **City of Springfield**, **Cape Girardeau 63 School District**, the **University of Missouri**, **St. Louis Community College**.

Fiscal Note Summary

It is estimated this proposal will have no costs or savings to state or local governmental entities.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-47)**

Subject

Initiative petition from Ron Calzone regarding a proposed constitutional amendment to Article I, Sections 26, 27, and 28. (Received December 17, 2008)

Date

January 6, 2009

Description

This proposal would amend Article I, Sections 26, 27, and 28 of the Missouri Constitution.

The amendment is to be voted on in November, 2010.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Office of the State Public Defender**, the **Missouri Senate**, the **Secretary of State's Office**, the **State Tax Commission**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **Jackson County**, **St. Louis County**, the **City of Columbia**, the **City of Gladstone**, the **City of Kansas City**, the **City of Kirkwood**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community Colleges**, the **University of Missouri**, and **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated this proposal creates no fiscal impact on their agency.

Officials from the **Department of Economic Development** indicated this petition will have no fiscal impact on their department.

Officials from the **Department of Higher Education** indicated this initiative would have no direct, foreseeable fiscal impact on their agency.

The **Department of Health and Senior Services** indicated no impact for their department.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated passage of this initiative will have no cost or savings to their department.

Officials from the **Department of Mental Health** deferred its response to the Office of Administration-Division of Facilities Management, Design and Construction who is responsible for managing state-owned and leased property utilized by the department.

Officials from the **Department of Corrections** indicated the impact on their agency as a result of this initiative is unknown. They deferred to the Office of Administration-Division of Facilities Management, Design and Construction to address property issues and any resulting fiscal impact on behalf of state agencies.

The **Department of Labor and Industrial Relations** indicated this petition has no fiscal impact on their department.

The **Department of Revenue** indicated this petition will have no fiscal impact on their department.

The **Department of Public Safety** indicated there is no fiscal impact for this petition on their department.

Officials from the **Department of Social Services** indicated there is no fiscal impact on their agency as a result of this initiative petition.

Officials from the **Governor's Office/Office of Administration** indicated this proposal will have no fiscal impact on their agencies.

The **Missouri House of Representatives** indicated this initiative petition has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that no fiscal impact to their department would be expected as a result of this proposal.

The **Office of State Courts Administrator** indicated that this initiative petition should not have a fiscal impact on the judiciary.

Officials from the **Department of Transportation** indicated this initiative petition changes property acquisition procedures and limits property acquisition by public entities, including their department, which will impact their department. They estimate it would significantly delay their department's project delivery process and would increase their property acquisition costs, based on the constitutional changes described by the department [Missouri Department of Transportation (MoDOT)/Missouri Highway and Transportation Commission (MHTC)] below:

Limits Eminent Domain Authority: Section 26 is amended to state that eminent domain power shall only vest in the state, including state entities expressly granted such power by this constitution, and in political subdivisions of the state whose officials are directly accountable to elected officials. Private property will not be taken or damaged unless the taking is necessary for a public use and just compensation is paid. This change should not prohibit MoDOT from condemning property to be used for state highway system purposes (as authorized by article IV, section 30(b)) or for the state transportation system (authorized by article IV, section 30(c)).

Appraisal Methods: Section 26 changes the way property is to be valued for just compensation arising from a condemnation proceeding. The initiative petition would allow any appraisal method used in the ordinary scope of business to be admissible in a condemnation proceeding. This change could have a significant, unknown negative fiscal impact on MHTC and MoDOT.

Interlocutory Appeals: Section 26 would also prohibit use of the condemned land by the condemnor until all legal challenges to the condemnation are final. This process could take years and delay project lettings. Appellate courts have typically recognized a very limited number of legal challenges against a condemnation petition: (1) fraud; (2) bad faith; or (3) arbitrary and unwarranted abuse of discretion. By allowing any legal challenge to the condemnation petition, this significantly alters the number and types of challenges to a condemnor's petition to condemn, which will significantly delay the acquisition of property for MHTC's state highway construction program, and which will also encourage more landowners to contest MHTC's authority to condemn property in an attempt to force MHTC to pay more money for the property or risk delaying the project. Delay of projects results in a negative fiscal impact, loss of safety benefits from constructing such projects on time, as well as the additional inflation costs for the construction projects that arise through such delays.

Takings for Private Ownership Prohibited: Section 28(1) would prohibit takings for private ownership and could therefore be construed to bar condemnations for certain public-private partnerships, transportation corporations, transportation development districts and the like. There is no exception to the private use prohibition for transportation projects, except as it relates to railroads and to regulated utilities. Therefore, private property could not be acquired by MHTC and later transferred, even by lease, to a private person for a public use. This provision would result in a negative, unknown fiscal impact to MoDOT.

Corridor Preservation 5 Year Limitation: Section 28(2) would allow landowners to claim their property back from the condemnor after 5 years and at the original price paid if the project is not substantially pursued. This language would repeal existing section 226.955 RSMo, which authorizes a 10 year construction initiation time limit on MHTC corridor acquisitions. This provision would significantly undermine MHTC's authority to do long-range planning and acquire property within a designated highway corridor in advance of design and construction because of the 5 year time frame to substantially accomplish the project. This language will also have a significant, negative unknown fiscal impact on MHTC and MoDOT.

Easements Only: Section 28(3) would allow the taking of property for transportation or utility facilities or transmission systems used by a railroad, regulated utility or rural electric cooperative, but the fee of property taken for these purposes without consent of the owner will remain in the owner subject to the use for which it is taken. Condemnations for transportation purposes that occur under this section shall be limited to right of way easements only, and fee simple title will be reserved in the landowner unless the landowner consents to give the condemnor fee simple title.

Whether this provision will negatively impact MoDOT depends upon how the language in this section is interpreted. If the provisions of this section are only applicable to condemnations by a railroad, regulated utility or rural electric cooperative for transportation purposes, then this section should not impact MHTC. If, however, this section is applicable to all takings for transportation purposes, then this provision will adversely impact the value of excess right of way that MHTC holds by only an easement rather than having fee simple title and will therefore have a negative, unknown impact upon MHTC.

Right of First Refusal 20 Year Limitation: Section 28(4) also would prohibit a condemnor from selling or leasing condemned property or allowing its use by a private entity within 20 years of the acquisition unless the owner or the owner's successor in title has been given the opportunity to buy the property back for the original price paid at the time of the taking. Please note that this IP also amends section 27 so that the sale of any excess property is now subject to this section 28(4). This provision might be construed by a court to prohibit conveyances or

leases to certain public-private partnerships, transportation corporations, transportation development districts and the like. This language will have a significant, unknown fiscal impact on MHTC and MoDOT.

MoDOT is unable to provide an estimate of the negative fiscal impact this initiative petition will have upon the department if it is approved by the voters; therefore, the negative fiscal impact due to this petition is unknown, greater than \$100,000.

Officials from the **Office of the State Public Defender** indicated this petition will not have any significant impact on their agency.

The **Missouri Senate** indicated this initiative appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article I, Section 26, 27, 28 of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2009, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$1.35 million to publish (an average of \$270,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

The **State Tax Commission** indicated this petition will not have a fiscal impact on their agency.

The **City of St. Louis** indicated the initiative petition would result in significant increases in cost and significant amounts of lost revenue to the city. In addition, the following related information was provided by the city.

The initiative petition proposes changes to Article I, Sections 26, 27, and 28 that would prohibit the use of eminent domain for redevelopment by providing that: (a) only public entities can acquire property using eminent domain; (b) no private ownership or other private rights shall be considered a public use; (c) the future use must be declared at the time of acquisition and cannot be changed; and (d) the public entity that acquired the property via eminent domain cannot transfer such

property to private ownership any sooner than twenty (20) years following the acquisition unless the original owner has been offered the right to buy back the property at the original price or unless the private owner is providing products or services incidental to the function of a publicly owned facility. Section 5 of the proposed amendment to Article I, Section 28, also appears to change Article VI, Section 21, by effectively stripping out the ability of local governments to use eminent domain for redevelopment that involves private entities through a provision that states that the proposed revisions to Article I, Sections 26, 27, and 28 limit the application of Article VI, Section 21. These proposed changes will result in both extreme costs and extreme loss of revenue to the City. The city uses eminent domain sparingly. But it is a very important tool that is vital in their efforts to overcome hundreds of acres of blight caused by five decades of suburban flight.

In 1950, the city had 850,000 people—today, they have just over 350,000. As a result of this population loss, there are now thousands of vacant lots and structures in the City of St. Louis. As a result of this population loss, many former residences and businesses have now become vacant buildings and vacant lots. Many of these vacant properties have fallen into city ownership by default—when the private owner did not pay property tax due, the property was placed in a tax foreclosure sale, and if a private party did not bid on the property its ownership was transferred to the Land Reutilization Authority. Redeveloping this decay would be easy if all of the properties were side by side—and if all of our vacant buildings and lots were owned by the city. In fact, they are not. The city-owned properties are scattered among many properties in the hands of private owners. Too many of these privately held properties are also blighted, making it very difficult—and in some cases nearly impossible—to redevelop these run-down areas. The vast majority of our privately owned vacant buildings and lots are not maintained by their private owners.

The result is that some of the City of St. Louis' neighborhoods are the best in the State of Missouri. But, others are plagued by poverty, poor infrastructure, and violence.

The City of St. Louis has made great progress in turning some of these neighborhoods around. But, it would not have happened without the possible use of eminent domain. Other neighborhoods waiting to be redeveloped will remain blighted if developers do not know at the beginning of a project that they will be able to complete it.

Eminent domain is needed to eradicate the vacant, abandoned, dangerous and problem properties that were left behind when half a million people left the City of St. Louis.

Eminent domain is needed to eradicate the vacant, abandoned, dangerous and problem properties that were left behind when half a million people left the City

of St. Louis. Private participation in the redevelopment process is necessary because the city does not have the resources to acquire the thousands of problem properties in the city, eliminate the problematic conditions, and hold the property for twenty (20) years. These properties were never used for governmental purposes and were not intended for governmental use. The city does not wish to—and cannot afford to—use public funds and eminent domain to purchase these properties, use public funds to redevelop them—and then own them and operate them for what are essentially private business and residential purposes for a twenty-year period. As provided in the proposed amendment, the city will not even be able to enlist the assistance of private enterprise in the operation of the properties or to realize any income from the property to offset the expense of acquiring and redeveloping it for the twenty-year period, because the proposed amendment prohibits the property from being “sold, leased, transferred, or otherwise made available for use by a private party within 20 years of such taking...unless the private owner is providing products or services incidental to the function of a publicly owned facility.” Private redevelopment and ownership will allow the city to rebuild its tax base; public ownership for a twenty-year period, on the other hand, will cost the city millions upon millions of dollars and result a veritable wasteland for two decades since it will not be possible for the city to use the property in any manner that allows the city to recoup even a portion of its investment—if it were even possible for the city to make the investment in the first place. Since city funds are not available, it will not possible to address these conditions with the limited and weak mechanisms that will remain if the amendment passes. Thus, the proposed amendment would sentence the city to another five—and more—decades of decline, disinvestment and population loss as people and businesses again leave the city because they cannot tolerate negative conditions that the city is powerless to change. The city needs to rebuild the market for city real estate and rebuild its tax base in the process—the proposed amendment would make it impossible for the city to do this.

Even more important, the amendment will make it impossible for the city to address the redevelopment of blighted areas in a manner that returns these areas to productive uses that generate tax revenues for the city and the State of Missouri. The redevelopment of blighted areas necessarily involves the participation of the private sector, which the amendment would prohibit for a twenty-year period. Developments like CORTEX, the new Pinnacle entertainment development, and Botanical Heights would no longer be possible—and it may not even be possible to complete those major developments that are already underway. It is critical that the city retain the ability to address blighted areas and to partner with private enterprise for the redevelopment of these blighted areas—the city cannot address the distress that currently exists in the city using public funds alone. The reason they need redevelopment is because their tax base has eroded over the past fifty years. They cannot reconstruct their tax base without the ability to address blighted areas, and they cannot reconstruct their tax base without partnerships with private enterprise. The proposed amendment would prohibit partnerships with private enterprise in redevelopment.

If the city is forced to address its distressed areas by using city funds and twenty-year city ownership to cure the distress, before having the ability to acquire and sell the property to responsible owners, the result will be a significant additional cost to the City of St. Louis, as detailed on the attachments below. Further, since the city cannot possibly afford this cost, estimated at over \$40 million per year, the vast majority of these distressed areas will remain distressed. The proposed amendment would render the city powerless to arrest the decline that has occurred over the past five decades, and set the stage for greater decline in the future as the proposed amendment rewards speculators, slumlords and predatory land owners for their irresponsible behavior by eliminating one of the few effective tools for addressing the problems they cause.

Over the years, the city has also come to own many properties in distressed areas due to property tax and other lien foreclosures—this is but one symptom of areawide distress. Many of the distressed properties in the city remain in private ownership, even though they are for all practical purposes abandoned, because their owners pay minimal property taxes and weed and trash removal liens. Approximately 3,700 vacant buildings and 10,000 vacant lots remain in private ownership. This private ownership of abandoned property causes problems for both neighboring residents and businesses and the city and impairs the city's ability to heal itself after five decades of decay.

In addition, redevelopment of both publicly owned and privately owned vacant properties is seldom feasible without the ability to combine those parcels with other blighted property for redevelopment, since most of the city was originally platted in 25-foot frontage increments. Today, a 25-foot lot is virtually useless for any purpose, residential or commercial. The proposed amendment would render the city unable to engage in redevelopment of these properties unless the city used public funds to do so. As detailed on the attachments below, they estimate that this inability to engage in redevelopment would cost the city more than \$40 million annually in lost future revenues, in addition to the \$40 million in additional city costs the city would incur in direct city funding of redevelopment activities directed towards alleviation of nuisance and problem properties.

The analysis in Attachment B provides detail on the types of costs the city would incur and the types of revenue losses the city would suffer if the amendment were to become law. Given the complexity of the issue and the amount of time available to provide this fiscal note, these figures are necessarily estimates. They believe, however, that the methodology described in Attachment B provides a reasonably accurate assessment of the fiscal impact to the City of St. Louis related to the impacts analyzed. In addition, in the interest of time, the attached assessment does not include each and every fiscal impact on the city—there are others which could be detailed if more time were available. The attached chart (Attachment A) summarizes the results of the methodologies applied in Attachment B and the estimated fiscal impact of the constitutional amendment.

As noted on the chart in Attachment A, they estimate that the total negative fiscal impact of the proposed Constitutional Amendment on the City of St. Louis is nearly (\$70 million) annually, and nearly (\$750 million) over a ten-year period. In addition, the amendment would produce a related negative fiscal impact on responsible private property owners whose property values suffer because of blight, absentee landlords, and predatory land owners.

ATTACHMENT A
SUMMARY OF FISCAL IMPACT ESTIMATE:
EMINENT DOMAIN INITIATIVE PETITION
(Estimate Details Provided on Exhibit B)

CITY OF ST. LOUIS

COST OR LOST REVENUE ITEM:	ANNUAL COST/ REVENUE LOSS:	10-YEAR COST/ REVENUE LOSS-- 2.5% ANNUAL INFLATION:	NOTES:
ESTIMATED CITY NEW/CONTINUING COSTS:			
Nuisance Identification/Abatement Management:	(\$2,725,000)	(\$31,066,152)	
Nuisance Eradication by:			
--City-Funded Repair:	(\$24,750,000)	(\$282,160,462)	
--Demolition:	(\$1,732,500)	(\$21,945,814)	
--Weed Cutting/Debris Removal:	(\$13,860,000)	(\$123,322,900)	10-year cost reduced by vacant lots assumed to be redeveloped
ESTIMATED CITY NEW/CONTINUING REVENUE LOSSES:			
Property tax impact: Negative impact of vacant/vandalized privately owned properties on adjoining property values:	(\$3,297,210)	(\$37,589,591)	
Property tax impact: Inability to make property available for private rehabilitation:	(\$458,840)	(\$5,230,969)	
Property tax impact: Inability to develop property commercially:	(\$4,740,289)	(\$54,041,293)	
Lost building permit revenue: Inability to make available for private rehabilitation:	(\$364,500)	(\$4,155,454)	
Lost sales tax revenue: Inability to develop property as retail:	(\$14,904,040)	(\$169,912,351)	
Lost earnings/payroll tax revenue: Inability to develop commercially:	(\$1,586,559)	(\$18,087,444)	
TOTALS:	(\$68,418,937)	(\$747,512,430)	

ATTACHMENT B
DETAIL AND METHODOLOGY OF FISCAL IMPACT ESTIMATE:
EMINENT DOMAIN INITIATIVE PETITION

CITY OF ST. LOUIS

PROBLEM/NUISANCE PROPERTIES:
DIRECT CITY COSTS

Most neighborhoods in the City of St. Louis have problem properties. The majority of these properties are privately owned—problems associated with the properties include criminal behavior, excessive trash and noise, collapsing walls, missing windows, open to the elements and to trespass, unsightly conditions, and a host of other issues. These properties plague responsible neighborhood residents and have serious negative impact on residential and business quality of life. While some portion of these problem properties may fall into City ownership due to property tax delinquency, the majority of them will need to be addressed in another manner, because owners continue to pay minimal property tax and retain ownership of these problem properties. The only manner in which many of these properties can be addressed is ultimately via eminent domain, which the proposed amendment eliminates as a redevelopment tool by providing that any property acquired by the City using eminent domain cannot be “sold, leased, transferred, or otherwise made available for use by a private party” for a twenty-year period after the acquisition. The following analysis assumes that the City can in fact acquire the properties and alleviate the problematic conditions and hold them for a twenty-year period, even though this will not be possible in a practical sense, and attempts to calculate the cost. If these properties cannot be addressed with eminent domain and private redevelopment, actions currently undertaken to address problem/nuisance properties will (a) need to continue for the foreseeable future; (b) will need to be multiplied to address all rather than just some of the problems; (c) the City will need to add new staff to carry out the nuisance eradication work and management of the properties. The analysis below does not calculate the additional loss of revenue the City will face as more people and business leave the City because the City is powerless to address their problem and nuisance property concerns, nor does it assume that the City will acquire the properties using eminent domain and hold them for twenty years—it assumes that the proposed amendment effectively eliminates eminent domain as a tool for dealing with problem properties, which is clearly the intent of the amendment. If eminent domain were used and the City were required to hold and operate the properties for a 20-year period, the costs would be far greater than the costs estimated below.

NUISANCE ERADICATION IDENTIFICATION AND MANAGEMENT:

Explanation: The following analysis estimates the cost of the new staff the City will need to put in place to identify problem properties and manage the eradication of the problems without the use of eminent domain and private redevelopment. This analysis assumes that 10% of the estimated nuisances that exist today will be eradicated each year.

NUISANCE ERADICATION IDENTIFICATION AND MANAGEMENT:

• Current cost of problem properties task force:	\$342,000	Actual current cost
• Cost of police officer to serve warrants:	\$60,000	Actual current cost
• Cost to increase problem properties task force by 400%:	\$1,608,000	Current cost X 4
• Cost of staff to manage eradication of 750 nuisances per year (10% of 7,500 total):	\$715,000	(10 staff x \$50K ea.; 2 attorneys @ \$75K each; 1 manager @ \$65K, including
TOTAL ESTIMATED ANNUAL COST:	\$2,725,000	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$31,066,152

NUISANCE ERADICATION BY REPAIR:

Explanation: Occupied privately owned problem properties where owners cannot be induced to make repairs via prosecution will require nuisance eradication by City-funded repair—and it will not be practical or in many cases legal to evict the occupants in order to eradicate the nuisance. The estimated number of such nuisances is 4,000. Further, it will be necessary for the City to rehabilitate some vacant privately owned properties, either because the property is located in an historic district or because the legal risks associated with demolition are too great to risk demolition at a lower cost.

NUISANCE ERADICATION BY REPAIR:

• # occupied building nuisances abated by City:	400	10% of estimated 4,000 buildings
• # vacant nuisances abated by City:	175	5% of estimated 3,500 non-LRA buildings per 2008
• Additional cost to abate occupied building nuisances:	\$10,000,000	Estimated \$25,000 per occupied
• Additional cost to abate vacant building nuisances:	\$17,500,000	Estimated \$100,000 per vacant building
TOTAL ESTIMATED ANNUAL COST:	\$27,500,000	
LESS: 10% cost recovered via lien foreclosure:	(\$2,750,000)	
NET ANNUAL COST:	\$24,750,000	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$282,160,462

NUISANCE ERADICATION BY DEMOLITION:

Explanation: The above analysis assumes that 50% of privately owned vacant nuisance buildings can and should be rehabilitated, and that the remaining 50% require demolition. Often privately owned vacant buildings problem properties fall into such disrepair that the only mechanism for addressing the problem is demolishing the structure on the property. If these properties cannot be addressed by eminent domain before such time as demolition is inevitable, the City will be forced to continue to spend City funds to demolish the properties. While some of the cost of demolition is recoverable through the lien and foreclosure process, this is only a small (less than 10%) portion of the cost.

NUISANCE ERADICATION BY DEMOLITION:

• # of privately owned vacant buildings requiring demolition:	175	5% of estimated 3,500 non-LRA buildings per 2008
• Average cost to demolish each privately owned vacant buildings:	\$11,000	5% of estimated 3,500 non-LRA buildings per 2008
TOTAL ESTIMATED ANNUAL COST:		\$1,925,000
LESS: 10% cost recovered via lien foreclosure:		(\$192,500)
NET ANNUAL COST:		\$1,732,500
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$21,945,814

NUISANCE ERADICATION BY WEED CUTTING & DEBRIS REMOVAL:

Explanation: Many privately owned problem properties are vacant; other privately owned properties have improvements but are abandoned—e.g., the owner does nothing to maintain the property. In both of these situations, City funds must be spent to remove unsightly conditions from the property so that the properties cause the least amount of harm to other properties on the block. While some of the cost of is recoverable through the lien and foreclosure process, this is only a small (less than 10%) portion of the cost. No deduction is made in this category for parcels acquired via property tax foreclosure, since once the property and the neighborhood deteriorate due to irresponsible property ownership it takes a long period of time for the property to be placed into productive use and the City must still maintain the property in the meantime to the best of the City's ability. Unlike the cost to abate nuisances, these costs cannot be spread over a number of years—maintenance must be performed annually. If liens are imposed and foreclosed upon, in most instances the private owner will not pay off the liens—thus, the property falls by default into public ownership and the City will be still responsible for maintaining the property on an ongoing basis, unless and until the City can sell the property to another private owner.

NUISANCE ERADICATION BY WEEDCUTTING & DEBRIS REMOVAL:

• # of privately owned vacant lots requiring demolition:	7,000	70% of total 10,000 vacant lots
• Average cost per lot for weedcutting/debris removal:	\$2,200	8 events/year @ \$275/event
TOTAL ESTIMATED ANNUAL COST:		\$15,400,000
LESS: 10% cost recovered via lien foreclosure:		(\$1,540,000)
NET ANNUAL COST:		\$13,860,000
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation, 5% inv. reduction per year:		\$123,322,900

LOST REVENUES

NEGATIVE IMPACT ON ADJOINING PROPERTIES:

Explanation: Vacant and abandoned properties drive down the value of other properties located on the same block. The abandonment of a property is visible signal that its owners do not care about it to other owners on the block and to those who otherwise might be interested in purchasing property on the block. The City receives a high volume of complaints each year about vacant and vandalized privately owned properties. In 2005, according to the City's vacant building survey, the City had 3,751 privately owned residential vacant and vandalized buildings located on approximately 1,631 City blocks—the number of vacant and vandalized properties per block ranged from 1 to 16. The City must be able to take these properties out of the hands of

irresponsible owners who care nothing about the surrounding neighborhoods. If the City cannot do so, the City and other taxing jurisdictions will suffer from the negative impact of these problem properties on other properties forever, with no way to take back neighborhoods from owners that wreak havoc on our neighborhoods and responsible neighbors' lives. Assuming that each City block with one or more abandoned property reduces the value of other properties on the block by 10% (believed to be a conservative number in blocks that are plagued with more than one vacant and vandalized property), the cost to the City and other taxing jurisdictions in property taxes and the cost to adjacent owners in reduced property values are calculated below. No deduction is made in this category for parcels acquired via property tax or nuisance eradication lien foreclosure because the damage to neighboring property values has already been done by the time the City acquires the property through tax or nuisance eradication lien foreclosure. With eminent domain, the City has the ability (assuming funding is available) to acquire the property before damage to neighboring property values becomes irreversible.

NEGATIVE IMPACT ON ADJOINING PROPERTIES:

• Total # of City blocks (approximate):	5,771	Per City Assessor's
• Total # of parcels:	103,475	Per City Assessor's
• Average parcels/City block:	17.93	Per City Assessor's
• City blocks w/vacant & vandalized buildings:	1,618	Per City Assessor's records/ vacant
• Parcels negatively impacted by vacant buildings:	29,011	
• Average assessed value of residential parcel:	\$17,500	
• Total value parcels w/vacant buildings on block:	\$507,692,709	Parcels negatively impacted x average
• Estimated negative impact on assessed values of parcels due to vacant buildings on block:	(\$50,769,271)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ESTIMATED LOST REVENUES:	\$3,297,210	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$37,589,591	

In addition, nuisances hurt adjacent property owners by negatively impacting the value of the adjacent owners' property. This hurts owners by impairing their ability to sell or borrow against the property at a higher value.

NEGATIVE IMPACT ON MARKET VALUE OF NON-VACANT PRIVATELY OWNED PROPERTIES :	\$267,206,689	Assessed value/.19 = impact on market value
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LOST REVENUES DUE TO LACK OF PROPERTY IMPROVEMENT BY PRIVATE PARTIES:

Explanation—Vacant Building Rehabilitation: In addition to the loss of property tax associated with negative impacts on surrounding non-vacant properties, the fact that owners allow vacant and vandalized properties to deteriorate also costs the City and other taxing jurisdictions in lost tax revenue. When privately owned formerly abandoned or vacant properties are redeveloped as private property, these properties add growth to the City's tax base above and beyond the growth permitted by the Hancock Amendment. In addition, it is not reasonable to expect that the City itself would rehabilitate and occupy these properties that were formerly occupied by private parties—if the City were required to rehabilitate and occupy the properties forever, it would cost the City significant amounts of money to rehabilitate the properties, as described above, and to maintain the properties in the event that private parties do not purchase them. Further, if the City rather than private parties rehabilitates and occupies the properties (as

is required by the amendment—the City cannot take the property by eminent domain and sell it to a private owner for rehabilitation), the City will lose revenue that it would otherwise collect due to fees on improvement costs. The following factors are used below to calculate the loss of tax revenues associated with the fact that the City will be unable to encourage property improvement and tax base growth if the amendment is passed:

LOST REVENUE DUE TO LACK OF PRIVATE PROPERTY IMPROVEMENT:

• Average assessed value of privately owned vacant/vandalized building:	\$7,545	2005 value per City Assessor w/2.5%
• Average sales price--single-family home:	\$164,698	City Assessor Data--
• Average assessed value--single-family home:	\$31,293	
• Assessed value lost due to inability to make vacant buildings available for private rehabilitation:	\$23,748	
• # of privately owned vacant buildings that could be privately rehabilitated per year if available:	350	10% of total 3,500 buildings
• Total annual assessed value lost due to inability to make vacant buildings available for private rehabilitation:	(\$8,311,829)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ANNUAL ESTIMATED LOST PROPERTY TAX REVENUE:	\$539,812	
LESS: 15% to City ownership via tax foreclosure:	(\$80,972)	
NET ANNUAL COST:	\$458,840	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$5,230,969	

LOST BUILDING PERMIT FEE REVENUE:

• # of privately owned vacant buildings that could be privately rehabilitated per year if available:	350	10% of total 3,500 buildings
• Approximate average rehabilitation cost:	\$100,000	
• Approximate total rehabilitation cost:	\$35,000,000	
• Building Permit Fee rate:	\$9/\$1000	City Assessor Data--
• # of privately owned occupied buildings that could be privately rehabilitated per year if available:	400	10% of total 4,000 buildings
• Approximate average rehabilitation cost:	\$25,000	
• Approximate total rehabilitation cost:	\$10,000,000	
• Building Permit Fee rate:	\$9/\$1000	City Assessor Data--
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$405,000	
LESS: 20% private owner compliance:	(\$40,500)	
NET ANNUAL COST:	\$364,500	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$4,155,454	

Explanation—Lost Revenue due to Lack of Vacant Land Redevelopment: Many privately owned City properties are vacant lots where the improvements have been demolished, either by the City or by the private owner. These vacant lots are scabs on otherwise intact neighborhoods. In many city neighborhoods, these vacant lots outnumber parcels with improvements. In many cases, the vacant parcels, 25' wide, are flanked by other vacant properties owned by multiple owners. The City's inability to use eminent domain to assemble these vacant lots and abandoned properties and return them to productive use will result in significant lost revenues—sales tax revenues, property tax revenues and payroll/earnings tax revenues. In addition, the development of new retail and other facilities is essential to preserving the City's existing population and encouraging new residents to locate in the City. Such development is currently occurring in the

City but will come to a halt if the amendment passes. The following factors are used below to calculate the loss of tax revenues associated with the fact that the City will be unable to encourage commercial redevelopment of abandoned property and tax base growth if the amendment is passed:

LOST REVENUE DUE TO LACK OF VACANT LAND REDEVELOPMENT:

• # of privately owned vacant lots in City:	10,131	2005 City Assessor
• Average area of one (1) vacant lot:	4,687	125' x 37.5'
• Total vacant lot area:	47,483,997	125' x 37.5'
• Additional 50% City-owned vacant lots that cannot be redeveloped w/o adjacent privately owned lots:	23,741,999	
• Total developable vacant lot area:	71,225,996	
• Assume 10% of vacant lot area could be redeveloped as retail:	7,122,600	
• Assumed building coverage for retail:	25%	
• Total area not developed as retail:	1,780,650	
• Average retail sales/sq. ft./year:	\$300	
• Total retail sales lost:	\$534,194,966	
• City sales tax rate:	3.10%	City Budget Office
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$16,560,044	
LESS: 15% to City ownership tax foreclosure/other:	(\$1,656,004)	
NET ANNUAL COST:	\$14,904,040	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$169,912,351	
• Average jobs/1,000 sq. ft. retail:	3	
• Total retail jobs lost:	5,342	
• Average annual salary/retail job:	\$22,000	
• Total payroll lost:	\$117,522,893	
• City earnings/payroll tax rate:	1.50%	City Budget Office
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$1,762,843	
LESS: 15% to City ownership tax foreclosure/other:	(\$176,284)	
NET ANNUAL COST:	\$1,586,559	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$18,087,444	
• Average assessed value of privately owned vacant parcel:	\$3,772	2005 value per City Assessor w/2.5%
• Average assessed value commercial non-vacant parcel:	\$57,139	2005 value per City Assessor w/2.5%
• Assessed value difference--vacant/non-vacant:	\$53,367	
• # of privately owned vacant lots in City:	10,131	2005 City Assessor
• Additional 50% City-owned vacant lots that cannot be redeveloped w/o adjacent privately owned lots:	5,066	
• Total developable parcels:	15,197	
• Assume 10% of vacant lot area could be redeveloped as retail:	1,520	
• Total estimated assessed value increase if parcels were developed:	(\$81,099,195)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ANNUAL ESTIMATED LOST PROPERTY TAX REVENUE:	\$5,266,987	
LESS: 15% to City ownership tax foreclosure/other:	(\$526,699)	
NET ANNUAL COST:	\$4,740,289	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$54,041,293	

ATTACHMENT B (CONT'D)
OTHER FISCAL IMPACTS:

Non-Physical Nuisances: The proposed amendment does not clearly define “nuisance.” Non-physical nuisances (e.g., criminal activity, drugs, antisocial behavior) are difficult if not impossible to cure and cannot be cured with “eradication” activities that place a lien on the property. Often the use of eminent domain is the only way to get such a property out of the hands of problem owners and into the hands of a responsible party.

Inability to Redevelop as Higher Quality Residential Property: Much of the City’s housing stock is obsolete and unattractive to the modern housing market. Eradicating nuisances per se does not allow the City to redevelop obsolete residential property into homes that will attract modern residents. Thus, the inability to redevelop obsolete and deteriorated residential property as higher quality residential property also has a cost. This cost can be estimated but we have not taken the time to do so here.

Inability to Adequately Address Blighted Areas and Impact on Other Property: The City has been in a continuing state of decline for the past five decades. Only recently has this decline been arrested. Now the City’s problems are slowly but surely being turned into opportunities, in large part because people believe that the City is making progress and will continue to do so. This progress has been possible due in large part to the availability of eminent domain for private redevelopment. If the proposed amendment becomes effective, this progress will come to a halt, and this in turn will (a) discourage “new” investors and homeowners from giving the City a chance, and (b) discourage those who have already invested in the City from remaining. The City has many problems, and those problems are being addressed, but total transformation cannot and will not happen overnight. It is essential that the City be able to continue to make progress if the successes recently experienced are to be sustained. If eminent domain is not available as a redevelopment tool in conjunction with private redevelopment, businesses and residents will once again leave the City and the same kinds of decline, disinvestment and population loss that the City previously suffered will continue into the foreseeable future.

Officials from **Hannibal School District #60** indicated they do not believe this petition would produce any additional cost or savings to their school district.

Officials from **Rockwood R-VI School District** indicated they did not find anything objectionable in this petition that would result in a cost or savings for them.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact on their organization as a result of this initiative petition.

Metropolitan Community Colleges indicated this petition would have no significant direct fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Elementary and Secondary Education**, the **Department of Natural Resources**, the **State Treasurer's Office**, **Cole County**,

Greene County, Jackson County, St. Louis County, the City of Columbia, the City of Gladstone, the City of Kansas City, the City of Kirkwood, Cape Girardeau 63 School District, the University of Missouri, and St. Louis Community College.

Fiscal Note Summary

The total cost or savings to state or local governmental entities is unknown. Most state governmental entities estimate no costs, however, some state governmental entities may have indirect costs or unknown costs that may exceed \$100,000. Estimated costs, if any, to local governmental entities could be significant.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-48)**

Subject

Initiative petition from Ron Calzone regarding a proposed constitutional amendment to Article I, Sections 26, 27, and 28. (Received December 17, 2008)

Date

January 6, 2009

Description

This proposal would amend Article I, Sections 26, 27, and 28 of the Missouri Constitution.

The amendment is to be voted on in November, 2010.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Office of the State Public Defender**, the **Missouri Senate**, the **Secretary of State's Office**, the **State Tax Commission**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **Jackson County**, **St. Louis County**, the **City of Columbia**, the **City of Gladstone**, the **City of Kansas City**, the **City of Kirkwood**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community Colleges**, the **University of Missouri**, and **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated this proposal creates no fiscal impact on their agency.

Officials from the **Department of Economic Development** indicated this petition will have no fiscal impact on their department.

Officials from the **Department of Higher Education** indicated this initiative would have no direct, foreseeable fiscal impact on their agency.

The **Department of Health and Senior Services** indicated no impact for their department.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated passage of this initiative will have no cost or savings to their department.

Officials from the **Department of Mental Health** deferred its response to the Office of Administration-Division of Facilities Management, Design and Construction who is responsible for managing state-owned and leased property utilized by the department.

Officials from the **Department of Corrections** indicated the impact on their agency as a result of this initiative is unknown. They deferred to the Office of Administration-Division of Facilities Management, Design and Construction to address property issues and any resulting fiscal impact on behalf of state agencies.

The **Department of Labor and Industrial Relations** indicated this petition has no fiscal impact on their department.

The **Department of Revenue** indicated this petition will have no fiscal impact on their department.

The **Department of Public Safety** indicated there is no fiscal impact for this petition on their department.

Officials from the **Department of Social Services** indicated there is no fiscal impact on their agency as a result of this initiative petition.

Officials from the **Governor's Office/Office of Administration** indicated this proposal will have no fiscal impact on their agencies.

The **Missouri House of Representatives** indicated this initiative petition has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that no fiscal impact to their department would be expected as a result of this proposal.

The **Office of State Courts Administrator** indicated that this initiative petition should not have a fiscal impact on the judiciary.

Officials from the **Department of Transportation** indicated this initiative petition changes property acquisition procedures and limits property acquisition by public entities, including their department, which will impact their department. They estimate it would significantly delay their department's project delivery process and would increase their property acquisition costs, based on the constitutional changes described by the department [Missouri Department of Transportation (MoDOT)/Missouri Highway and Transportation Commission (MHTC)] below:

Limits Eminent Domain Authority: Section 26 is amended to state that eminent domain power shall only vest in the state, including state entities expressly granted such power by this constitution, and in political subdivisions of the state whose officials are directly accountable to elected officials. Private property will not be taken or damaged unless the taking is necessary for a public use and just compensation is paid. This change should not prohibit MoDOT from condemning property to be used for state highway system purposes (as authorized by article IV, section 30(b)) or for the state transportation system (authorized by article IV, section 30(c)).

Appraisal Methods: Section 26 changes the way property is to be valued for just compensation arising from a condemnation proceeding. The initiative petition would allow any appraisal method used in the ordinary scope of business to be admissible in a condemnation proceeding. This change could have a significant, unknown negative fiscal impact on MHTC and MoDOT.

Interlocutory Appeals: Section 26 would also prohibit use of the condemned land by the condemnor until all legal challenges to the condemnation are final. This process could take years and delay project lettings. Appellate courts have typically recognized a very limited number of legal challenges against a condemnation petition: (1) fraud; (2) bad faith; or (3) arbitrary and unwarranted abuse of discretion. By allowing any legal challenge to the condemnation petition, this significantly alters the number and types of challenges to a condemnor's petition to condemn, which will significantly delay the acquisition of property for MHTC's state highway construction program, and which will also encourage more landowners to contest MHTC's authority to condemn property in an attempt to force MHTC to pay more money for the property or risk delaying the project. Delay of projects results in a negative fiscal impact, loss of safety benefits from constructing such projects on time, as well as the additional inflation costs for the construction projects that arise through such delays.

Takings for Private Ownership Prohibited: Section 28(1) would prohibit takings for private ownership and could therefore be construed to bar condemnations for certain public-private partnerships, transportation corporations, transportation development districts and the like. There is no exception to the private use prohibition for transportation projects, except as it relates to railroads and to regulated utilities. Therefore, private property could not be acquired by MHTC and later transferred, even by lease, to a private person for a public use. This provision would result in a negative, unknown fiscal impact to MoDOT.

Corridor Preservation 5 Year Limitation: Section 28(2) would allow landowners to claim their property back from the condemnor after 5 years and at the original price paid if the project is not substantially pursued. This language would repeal existing section 226.955 RSMo, which authorizes a 10 year construction initiation time limit on MHTC corridor acquisitions. This provision would significantly undermine MHTC's authority to do long-range planning and acquire property within a designated highway corridor in advance of design and construction because of the 5 year time frame to substantially accomplish the project. This language will also have a significant, negative unknown fiscal impact on MHTC and MoDOT.

Easements Only: Section 28(3) would allow the taking of property for transportation or utility facilities or transmission systems used by a railroad, regulated utility or rural electric cooperative, but the fee of property taken for these purposes without consent of the owner will remain in the owner subject to the use for which it is taken. Condemnations for transportation purposes that occur under this section shall be limited to right of way easements only, and fee simple title will be reserved in the landowner unless the landowner consents to give the condemnor fee simple title.

Whether this provision will negatively impact MoDOT depends upon how the language in this section is interpreted. If the provisions of this section are only applicable to condemnations by a railroad, regulated utility or rural electric cooperative for transportation purposes, then this section should not impact MHTC. If, however, this section is applicable to all takings for transportation purposes, then this provision will adversely impact the value of excess right of way that MHTC holds by only an easement rather than having fee simple title and will therefore have a negative, unknown impact upon MHTC.

Right of First Refusal 20 Year Limitation: Section 28(4) also would prohibit a condemnor from selling or leasing condemned property or allowing its use by a private entity within 20 years of the acquisition unless the owner or the owner's successor in title has been given the opportunity to buy the property back for the original price paid at the time of the taking. Please note that this IP also amends section 27 so that the sale of any excess property is now subject to this section 28(4). This provision might be construed by a court to prohibit conveyances or

leases to certain public-private partnerships, transportation corporations, transportation development districts and the like. This language will have a significant, unknown fiscal impact on MHTC and MoDOT.

MoDOT is unable to provide an estimate of the negative fiscal impact this initiative petition will have upon the department if it is approved by the voters; therefore, the negative fiscal impact due to this petition is unknown, greater than \$100,000.

Officials from the **Office of the State Public Defender** indicated this petition will not have any significant impact on their agency.

The **Missouri Senate** indicated this initiative appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article I, Section 26, 27, 28 of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2009, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$1.35 million to publish (an average of \$270,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

The **State Tax Commission** indicated this petition will not have a fiscal impact on their agency.

The **City of St. Louis** indicated the initiative petition would result in significant increases in cost and significant amounts of lost revenue to the city. In addition, the following related information was provided by the city.

The initiative petition proposes changes to Article I, Sections 26, 27, and 28 that would prohibit the use of eminent domain for redevelopment by providing that: (a) only public entities can acquire property using eminent domain; (b) no private ownership or other private rights shall be considered a public use; (c) the future use must be declared at the time of acquisition and cannot be changed; and (d) the public entity that acquired the property via eminent domain cannot transfer such

property to private ownership any sooner than twenty (20) years following the acquisition unless the original owner has been offered the right to buy back the property at the original price or unless the private owner is providing products or services incidental to the function of a publicly owned facility. Section 5 of the proposed amendment to Article I, Section 28, also appears to change Article VI, Section 21, by effectively stripping out the ability of local governments to use eminent domain for redevelopment that involves private entities through a provision that states that the proposed revisions to Article I, Sections 26, 27, and 28 limit the application of Article VI, Section 21. These proposed changes will result in both extreme costs and extreme loss of revenue to the City. The city uses eminent domain sparingly. But it is a very important tool that is vital in their efforts to overcome hundreds of acres of blight caused by five decades of suburban flight.

In 1950, the city had 850,000 people—today, they have just over 350,000. As a result of this population loss, there are now thousands of vacant lots and structures in the City of St. Louis. As a result of this population loss, many former residences and businesses have now become vacant buildings and vacant lots. Many of these vacant properties have fallen into city ownership by default—when the private owner did not pay property tax due, the property was placed in a tax foreclosure sale, and if a private party did not bid on the property its ownership was transferred to the Land Reutilization Authority. Redeveloping this decay would be easy if all of the properties were side by side—and if all of our vacant buildings and lots were owned by the city. In fact, they are not. The city-owned properties are scattered among many properties in the hands of private owners. Too many of these privately held properties are also blighted, making it very difficult—and in some cases nearly impossible—to redevelop these run-down areas. The vast majority of our privately owned vacant buildings and lots are not maintained by their private owners.

The result is that some of the City of St. Louis' neighborhoods are the best in the State of Missouri. But, others are plagued by poverty, poor infrastructure, and violence.

The City of St. Louis has made great progress in turning some of these neighborhoods around. But, it would not have happened without the possible use of eminent domain. Other neighborhoods waiting to be redeveloped will remain blighted if developers do not know at the beginning of a project that they will be able to complete it.

Eminent domain is needed to eradicate the vacant, abandoned, dangerous and problem properties that were left behind when half a million people left the City of St. Louis.

Eminent domain is needed to eradicate the vacant, abandoned, dangerous and problem properties that were left behind when half a million people left the City

of St. Louis. Private participation in the redevelopment process is necessary because the city does not have the resources to acquire the thousands of problem properties in the city, eliminate the problematic conditions, and hold the property for twenty (20) years. These properties were never used for governmental purposes and were not intended for governmental use. The city does not wish to—and cannot afford to—use public funds and eminent domain to purchase these properties, use public funds to redevelop them—and then own them and operate them for what are essentially private business and residential purposes for a twenty-year period. As provided in the proposed amendment, the city will not even be able to enlist the assistance of private enterprise in the operation of the properties or to realize any income from the property to offset the expense of acquiring and redeveloping it for the twenty-year period, because the proposed amendment prohibits the property from being “sold, leased, transferred, or otherwise made available for use by a private party within 20 years of such taking...unless the private owner is providing products or services incidental to the function of a publicly owned facility.” Private redevelopment and ownership will allow the city to rebuild its tax base; public ownership for a twenty-year period, on the other hand, will cost the city millions upon millions of dollars and result a veritable wasteland for two decades since it will not be possible for the city to use the property in any manner that allows the city to recoup even a portion of its investment—if it were even possible for the city to make the investment in the first place. Since city funds are not available, it will not possible to address these conditions with the limited and weak mechanisms that will remain if the amendment passes. Thus, the proposed amendment would sentence the city to another five—and more—decades of decline, disinvestment and population loss as people and businesses again leave the city because they cannot tolerate negative conditions that the city is powerless to change. The city needs to rebuild the market for city real estate and rebuild its tax base in the process—the proposed amendment would make it impossible for the city to do this.

Even more important, the amendment will make it impossible for the city to address the redevelopment of blighted areas in a manner that returns these areas to productive uses that generate tax revenues for the city and the State of Missouri. The redevelopment of blighted areas necessarily involves the participation of the private sector, which the amendment would prohibit for a twenty-year period. Developments like CORTEX, the new Pinnacle entertainment development, and Botanical Heights would no longer be possible—and it may not even be possible to complete those major developments that are already underway. It is critical that the city retain the ability to address blighted areas and to partner with private enterprise for the redevelopment of these blighted areas—the city cannot address the distress that currently exists in the city using public funds alone. The reason they need redevelopment is because their tax base has eroded over the past fifty years. They cannot reconstruct their tax base without the ability to address blighted areas, and they cannot reconstruct their tax base without partnerships with private enterprise. The proposed amendment would prohibit partnerships with private enterprise in redevelopment.

If the city is forced to address its distressed areas by using city funds and twenty-year city ownership to cure the distress, before having the ability to acquire and sell the property to responsible owners, the result will be a significant additional cost to the City of St. Louis, as detailed on the attachments below. Further, since the city cannot possibly afford this cost, estimated at over \$40 million per year, the vast majority of these distressed areas will remain distressed. The proposed amendment would render the city powerless to arrest the decline that has occurred over the past five decades, and set the stage for greater decline in the future as the proposed amendment rewards speculators, slumlords and predatory land owners for their irresponsible behavior by eliminating one of the few effective tools for addressing the problems they cause.

Over the years, the city has also come to own many properties in distressed areas due to property tax and other lien foreclosures—this is but one symptom of areawide distress. Many of the distressed properties in the city remain in private ownership, even though they are for all practical purposes abandoned, because their owners pay minimal property taxes and weed and trash removal liens. Approximately 3,700 vacant buildings and 10,000 vacant lots remain in private ownership. This private ownership of abandoned property causes problems for both neighboring residents and businesses and the city and impairs the city's ability to heal itself after five decades of decay.

In addition, redevelopment of both publicly owned and privately owned vacant properties is seldom feasible without the ability to combine those parcels with other blighted property for redevelopment, since most of the city was originally platted in 25-foot frontage increments. Today, a 25-foot lot is virtually useless for any purpose, residential or commercial. The proposed amendment would render the city unable to engage in redevelopment of these properties unless the city used public funds to do so. As detailed on the attachments below, they estimate that this inability to engage in redevelopment would cost the city more than \$40 million annually in lost future revenues, in addition to the \$40 million in additional city costs the city would incur in direct city funding of redevelopment activities directed towards alleviation of nuisance and problem properties.

The analysis in Attachment B provides detail on the types of costs the city would incur and the types of revenue losses the city would suffer if the amendment were to become law. Given the complexity of the issue and the amount of time available to provide this fiscal note, these figures are necessarily estimates. They believe, however, that the methodology described in Attachment B provides a reasonably accurate assessment of the fiscal impact to the City of St. Louis related to the impacts analyzed. In addition, in the interest of time, the attached assessment does not include each and every fiscal impact on the city—there are others which could be detailed if more time were available. The attached chart (Attachment A) summarizes the results of the methodologies applied in Attachment B and the estimated fiscal impact of the constitutional amendment.

As noted on the chart in Attachment A, they estimate that the total negative fiscal impact of the proposed Constitutional Amendment on the City of St. Louis is nearly (\$70 million) annually, and nearly (\$750 million) over a ten-year period. In addition, the amendment would produce a related negative fiscal impact on responsible private property owners whose property values suffer because of blight, absentee landlords, and predatory land owners.

ATTACHMENT A
SUMMARY OF FISCAL IMPACT ESTIMATE:
EMINENT DOMAIN INITIATIVE PETITION
(Estimate Details Provided on Exhibit B)

CITY OF ST. LOUIS

COST OR LOST REVENUE ITEM:	ANNUAL COST/ REVENUE LOSS:	10-YEAR COST/ REVENUE LOSS-- 2.5% ANNUAL INFLATION:	NOTES:
ESTIMATED CITY NEW/CONTINUING COSTS:			
Nuisance Identification/Abatement Management:	(\$2,725,000)	(\$31,066,152)	
Nuisance Eradication by:			
--City-Funded Repair:	(\$24,750,000)	(\$282,160,462)	
--Demolition:	(\$1,732,500)	(\$21,945,814)	
--Weed Cutting/Debris Removal:	(\$13,860,000)	(\$123,322,900)	10-year cost reduced by vacant lots assumed to be redeveloped
ESTIMATED CITY NEW/CONTINUING REVENUE LOSSES:			
Property tax impact: Negative impact of vacant/vandalized privately owned properties on adjoining property values:	(\$3,297,210)	(\$37,589,591)	
Property tax impact: Inability to make property available for private rehabilitation:	(\$458,840)	(\$5,230,969)	
Property tax impact: Inability to develop property commercially:	(\$4,740,289)	(\$54,041,293)	
Lost building permit revenue: Inability to make available for private rehabilitation:	(\$364,500)	(\$4,155,454)	
Lost sales tax revenue: Inability to develop property as retail:	(\$14,904,040)	(\$169,912,351)	
Lost earnings/payroll tax revenue: Inability to develop commercially:	(\$1,586,559)	(\$18,087,444)	
TOTALS:	(\$68,418,937)	(\$747,512,430)	

ATTACHMENT B
DETAIL AND METHODOLOGY OF FISCAL IMPACT ESTIMATE:
EMINENT DOMAIN INITIATIVE PETITION

CITY OF ST. LOUIS

PROBLEM/NUISANCE PROPERTIES:
DIRECT CITY COSTS

Most neighborhoods in the City of St. Louis have problem properties. The majority of these properties are privately owned—problems associated with the properties include criminal behavior, excessive trash and noise, collapsing walls, missing windows, open to the elements and to trespass, unsightly conditions, and a host of other issues. These properties plague responsible neighborhood residents and have serious negative impact on residential and business quality of life. While some portion of these problem properties may fall into City ownership due to property tax delinquency, the majority of them will need to be addressed in another manner, because owners continue to pay minimal property tax and retain ownership of these problem properties. The only manner in which many of these properties can be addressed is ultimately via eminent domain, which the proposed amendment eliminates as a redevelopment tool by providing that any property acquired by the City using eminent domain cannot be “sold, leased, transferred, or otherwise made available for use by a private party” for a twenty-year period after the acquisition. The following analysis assumes that the City can in fact acquire the properties and alleviate the problematic conditions and hold them for a twenty-year period, even though this will not be possible in a practical sense, and attempts to calculate the cost. If these properties cannot be addressed with eminent domain and private redevelopment, actions currently undertaken to address problem/nuisance properties will (a) need to continue for the foreseeable future; (b) will need to be multiplied to address all rather than just some of the problems; (c) the City will need to add new staff to carry out the nuisance eradication work and management of the properties. The analysis below does not calculate the additional loss of revenue the City will face as more people and business leave the City because the City is powerless to address their problem and nuisance property concerns, nor does it assume that the City will acquire the properties using eminent domain and hold them for twenty years—it assumes that the proposed amendment effectively eliminates eminent domain as a tool for dealing with problem properties, which is clearly the intent of the amendment. If eminent domain were used and the City were required to hold and operate the properties for a 20-year period, the costs would be far greater than the costs estimated below.

NUISANCE ERADICATION IDENTIFICATION AND MANAGEMENT:

Explanation: The following analysis estimates the cost of the new staff the City will need to put in place to identify problem properties and manage the eradication of the problems without the use of eminent domain and private redevelopment. This analysis assumes that 10% of the estimated nuisances that exist today will be eradicated each year.

NUISANCE ERADICATION IDENTIFICATION AND MANAGEMENT:

• Current cost of problem properties task force:	\$342,000	Actual current cost
• Cost of police officer to serve warrants:	\$60,000	Actual current cost
• Cost to increase problem properties task force by 400%:	\$1,608,000	Current cost X 4
• Cost of staff to manage eradication of 750 nuisances per year (10% of 7,500 total):	\$715,000	(10 staff x \$50K ea.; 2 attorneys @ \$75K each; 1 manager @ \$65K, including
TOTAL ESTIMATED ANNUAL COST:	\$2,725,000	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$31,066,152

NUISANCE ERADICATION BY REPAIR:

Explanation: Occupied privately owned problem properties where owners cannot be induced to make repairs via prosecution will require nuisance eradication by City-funded repair—and it will not be practical or in many cases legal to evict the occupants in order to eradicate the nuisance. The estimated number of such nuisances is 4,000. Further, it will be necessary for the City to rehabilitate some vacant privately owned properties, either because the property is located in an historic district or because the legal risks associated with demolition are too great to risk demolition at a lower cost.

NUISANCE ERADICATION BY REPAIR:

• # occupied building nuisances abated by City:	400	10% of estimated 4,000 buildings
• # vacant nuisances abated by City:	175	5% of estimated 3,500 non-LRA buildings per 2008
• Additional cost to abate occupied building nuisances:	\$10,000,000	Estimated \$25,000 per occupied
• Additional cost to abate vacant building nuisances:	\$17,500,000	Estimated \$100,000 per vacant building
TOTAL ESTIMATED ANNUAL COST:	\$27,500,000	
LESS: 10% cost recovered via lien foreclosure:	(\$2,750,000)	
NET ANNUAL COST:	\$24,750,000	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$282,160,462

NUISANCE ERADICATION BY DEMOLITION:

Explanation: The above analysis assumes that 50% of privately owned vacant nuisance buildings can and should be rehabilitated, and that the remaining 50% require demolition. Often privately owned vacant buildings problem properties fall into such disrepair that the only mechanism for addressing the problem is demolishing the structure on the property. If these properties cannot be addressed by eminent domain before such time as demolition is inevitable, the City will be forced to continue to spend City funds to demolish the properties. While some of the cost of demolition is recoverable through the lien and foreclosure process, this is only a small (less than 10%) portion of the cost.

NUISANCE ERADICATION BY DEMOLITION:

• # of privately owned vacant buildings requiring demolition:	175	5% of estimated 3,500 non-LRA buildings per 2008
• Average cost to demolish each privately owned vacant buildings:	\$11,000	5% of estimated 3,500 non-LRA buildings per 2008
TOTAL ESTIMATED ANNUAL COST:	\$1,925,000	
LESS: 10% cost recovered via lien foreclosure:	(\$192,500)	
NET ANNUAL COST:	\$1,732,500	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:	\$21,945,814	

NUISANCE ERADICATION BY WEED CUTTING & DEBRIS REMOVAL:

Explanation: Many privately owned problem properties are vacant; other privately owned properties have improvements but are abandoned—e.g., the owner does nothing to maintain the property. In both of these situations, City funds must be spent to remove unsightly conditions from the property so that the properties cause the least amount of harm to other properties on the block. While some of the cost of is recoverable through the lien and foreclosure process, this is only a small (less than 10%) portion of the cost. No deduction is made in this category for parcels acquired via property tax foreclosure, since once the property and the neighborhood deteriorate due to irresponsible property ownership it takes a long period of time for the property to be placed into productive use and the City must still maintain the property in the meantime to the best of the City's ability. Unlike the cost to abate nuisances, these costs cannot be spread over a number of years—maintenance must be performed annually. If liens are imposed and foreclosed upon, in most instances the private owner will not pay off the liens—thus, the property falls by default into public ownership and the City will be still responsible for maintaining the property on an ongoing basis, unless and until the City can sell the property to another private owner.

NUISANCE ERADICATION BY WEEDCUTTING & DEBRIS REMOVAL:

• # of privately owned vacant lots requiring demolition:	7,000	70% of total 10,000 vacant lots
• Average cost per lot for weedcutting/debris removal:	\$2,200	8 events/year @ \$275/event
TOTAL ESTIMATED ANNUAL COST:	\$15,400,000	
LESS: 10% cost recovered via lien foreclosure:	(\$1,540,000)	
NET ANNUAL COST:	\$13,860,000	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation, 5% inv. reduction per year:	\$123,322,900	

LOST REVENUES

NEGATIVE IMPACT ON ADJOINING PROPERTIES:

Explanation: Vacant and abandoned properties drive down the value of other properties located on the same block. The abandonment of a property is visible signal that its owners do not care about it to other owners on the block and to those who otherwise might be interested in purchasing property on the block. The City receives a high volume of complaints each year about vacant and vandalized privately owned properties. In 2005, according to the City's vacant building survey, the City had 3,751 privately owned residential vacant and vandalized buildings located on approximately 1,631 City blocks—the number of vacant and vandalized properties per block ranged from 1 to 16. The City must be able to take these properties out of the hands of

irresponsible owners who care nothing about the surrounding neighborhoods. If the City cannot do so, the City and other taxing jurisdictions will suffer from the negative impact of these problem properties on other properties forever, with no way to take back neighborhoods from owners that wreak havoc on our neighborhoods and responsible neighbors' lives. Assuming that each City block with one or more abandoned property reduces the value of other properties on the block by 10% (believed to be a conservative number in blocks that are plagued with more than one vacant and vandalized property), the cost to the City and other taxing jurisdictions in property taxes and the cost to adjacent owners in reduced property values are calculated below. No deduction is made in this category for parcels acquired via property tax or nuisance eradication lien foreclosure because the damage to neighboring property values has already been done by the time the City acquires the property through tax or nuisance eradication lien foreclosure. With eminent domain, the City has the ability (assuming funding is available) to acquire the property before damage to neighboring property values becomes irreversible.

NEGATIVE IMPACT ON ADJOINING PROPERTIES:

• Total # of City blocks (approximate):	5,771	Per City Assessor's
• Total # of parcels:	103,475	Per City Assessor's
• Average parcels/City block:	17.93	Per City Assessor's
• City blocks w/vacant & vandalized buildings:	1,618	Per City Assessor's records/ vacant
• Parcels negatively impacted by vacant buildings:	29,011	
• Average assessed value of residential parcel:	\$17,500	
• Total value parcels w/vacant buildings on block:	\$507,692,709	Parcels negatively impacted x average
• Estimated negative impact on assessed values of parcels due to vacant buildings on block:	(\$50,769,271)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ESTIMATED LOST REVENUES:	\$3,297,210	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$37,589,591	

In addition, nuisances hurt adjacent property owners by negatively impacting the value of the adjacent owners' property. This hurts owners by impairing their ability to sell or borrow against the property at a higher value.

NEGATIVE IMPACT ON MARKET VALUE OF NON-VACANT PRIVATELY OWNED PROPERTIES :	\$267,206,689	Assessed value/.19 = impact on market value
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LOST REVENUES DUE TO LACK OF PROPERTY IMPROVEMENT BY PRIVATE PARTIES:

Explanation—Vacant Building Rehabilitation: In addition to the loss of property tax associated with negative impacts on surrounding non-vacant properties, the fact that owners allow vacant and vandalized properties to deteriorate also costs the City and other taxing jurisdictions in lost tax revenue. When privately owned formerly abandoned or vacant properties are redeveloped as private property, these properties add growth to the City's tax base above and beyond the growth permitted by the Hancock Amendment. In addition, it is not reasonable to expect that the City itself would rehabilitate and occupy these properties that were formerly occupied by private parties—if the City were required to rehabilitate and occupy the properties forever, it would cost the City significant amounts of money to rehabilitate the properties, as described above, and to maintain the properties in the event that private parties do not purchase them. Further, if the City rather than private parties rehabilitates and occupies the properties (as

is required by the amendment—the City cannot take the property by eminent domain and sell it to a private owner for rehabilitation), the City will lose revenue that it would otherwise collect due to fees on improvement costs. The following factors are used below to calculate the loss of tax revenues associated with the fact that the City will be unable to encourage property improvement and tax base growth if the amendment is passed:

LOST REVENUE DUE TO LACK OF PRIVATE PROPERTY IMPROVEMENT:

• Average assessed value of privately owned vacant/vandalized building:	\$7,545	2005 value per City Assessor w/2.5%
• Average sales price--single-family home:	\$164,698	City Assessor Data--
• Average assessed value--single-family home:	\$31,293	
• Assessed value lost due to inability to make vacant buildings available for private rehabilitation:	\$23,748	
• # of privately owned vacant buildings that could be privately rehabilitated per year if available:	350	10% of total 3,500 buildings
• Total annual assessed value lost due to inability to make vacant buildings available for private rehabilitation:	(\$8,311,829)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ANNUAL ESTIMATED LOST PROPERTY TAX REVENUE:	\$539,812	
LESS: 15% to City ownership via tax foreclosure:	(\$80,972)	
NET ANNUAL COST:	\$458,840	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$5,230,969	

LOST BUILDING PERMIT FEE REVENUE:

• # of privately owned vacant buildings that could be privately rehabilitated per year if available:	350	10% of total 3,500 buildings
• Approximate average rehabilitation cost:	\$100,000	
• Approximate total rehabilitation cost:	\$35,000,000	
• Building Permit Fee rate:	\$9/\$1000	City Assessor Data--
• # of privately owned occupied buildings that could be privately rehabilitated per year if available:	400	10% of total 4,000 buildings
• Approximate average rehabilitation cost:	\$25,000	
• Approximate total rehabilitation cost:	\$10,000,000	
• Building Permit Fee rate:	\$9/\$1000	City Assessor Data--
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$405,000	
LESS: 20% private owner compliance:	(\$40,500)	
NET ANNUAL COST:	\$364,500	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$4,155,454	

Explanation—Lost Revenue due to Lack of Vacant Land Redevelopment: Many privately owned City properties are vacant lots where the improvements have been demolished, either by the City or by the private owner. These vacant lots are scabs on otherwise intact neighborhoods. In many city neighborhoods, these vacant lots outnumber parcels with improvements. In many cases, the vacant parcels, 25' wide, are flanked by other vacant properties owned by multiple owners. The City's inability to use eminent domain to assemble these vacant lots and abandoned properties and return them to productive use will result in significant lost revenues—sales tax revenues, property tax revenues and payroll/earnings tax revenues. In addition, the development of new retail and other facilities is essential to preserving the City's existing population and encouraging new residents to locate in the City. Such development is currently occurring in the

City but will come to a halt if the amendment passes. The following factors are used below to calculate the loss of tax revenues associated with the fact that the City will be unable to encourage commercial redevelopment of abandoned property and tax base growth if the amendment is passed:

LOST REVENUE DUE TO LACK OF VACANT LAND REDEVELOPMENT:

• # of privately owned vacant lots in City:	10,131	2005 City Assessor
• Average area of one (1) vacant lot:	4,687	125' x 37.5'
• Total vacant lot area:	47,483,997	125' x 37.5'
• Additional 50% City-owned vacant lots that cannot be redeveloped w/o adjacent privately owned lots:	23,741,999	
• Total developable vacant lot area:	71,225,996	
• Assume 10% of vacant lot area could be redeveloped as retail:	7,122,600	
• Assumed building coverage for retail:	25%	
• Total area not developed as retail:	1,780,650	
• Average retail sales/sq. ft./year:	\$300	
• Total retail sales lost:	\$534,194,966	
• City sales tax rate:	3.10%	City Budget Office
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$16,560,044	
LESS: 15% to City ownership tax foreclosure/other:	(\$1,656,004)	
NET ANNUAL COST:	\$14,904,040	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$169,912,351	
• Average jobs/1,000 sq. ft. retail:	3	
• Total retail jobs lost:	5,342	
• Average annual salary/retail job:	\$22,000	
• Total payroll lost:	\$117,522,893	
• City earnings/payroll tax rate:	1.50%	City Budget Office
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$1,762,843	
LESS: 15% to City ownership tax foreclosure/other:	(\$176,284)	
NET ANNUAL COST:	\$1,586,559	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$18,087,444	
• Average assessed value of privately owned vacant parcel:	\$3,772	2005 value per City Assessor w/2.5%
• Average assessed value commercial non-vacant parcel:	\$57,139	2005 value per City Assessor w/2.5%
• Assessed value difference--vacant/non-vacant:	\$53,367	
• # of privately owned vacant lots in City:	10,131	2005 City Assessor
• Additional 50% City-owned vacant lots that cannot be redeveloped w/o adjacent privately owned lots:	5,066	
• Total developable parcels:	15,197	
• Assume 10% of vacant lot area could be redeveloped as retail:	1,520	
• Total estimated assessed value increase if parcels were developed:	(\$81,099,195)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ANNUAL ESTIMATED LOST PROPERTY TAX REVENUE:	\$5,266,987	
LESS: 15% to City ownership tax foreclosure/other:	(\$526,699)	
NET ANNUAL COST:	\$4,740,289	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$54,041,293	

ATTACHMENT B (CONT'D)
OTHER FISCAL IMPACTS:

Non-Physical Nuisances: The proposed amendment does not clearly define “nuisance.” Non-physical nuisances (e.g., criminal activity, drugs, antisocial behavior) are difficult if not impossible to cure and cannot be cured with “eradication” activities that place a lien on the property. Often the use of eminent domain is the only way to get such a property out of the hands of problem owners and into the hands of a responsible party.

Inability to Redevelop as Higher Quality Residential Property: Much of the City’s housing stock is obsolete and unattractive to the modern housing market. Eradicating nuisances per se does not allow the City to redevelop obsolete residential property into homes that will attract modern residents. Thus, the inability to redevelop obsolete and deteriorated residential property as higher quality residential property also has a cost. This cost can be estimated but we have not taken the time to do so here.

Inability to Adequately Address Blighted Areas and Impact on Other Property: The City has been in a continuing state of decline for the past five decades. Only recently has this decline been arrested. Now the City’s problems are slowly but surely being turned into opportunities, in large part because people believe that the City is making progress and will continue to do so. This progress has been possible due in large part to the availability of eminent domain for private redevelopment. If the proposed amendment becomes effective, this progress will come to a halt, and this in turn will (a) discourage “new” investors and homeowners from giving the City a chance, and (b) discourage those who have already invested in the City from remaining. The City has many problems, and those problems are being addressed, but total transformation cannot and will not happen overnight. It is essential that the City be able to continue to make progress if the successes recently experienced are to be sustained. If eminent domain is not available as a redevelopment tool in conjunction with private redevelopment, businesses and residents will once again leave the City and the same kinds of decline, disinvestment and population loss that the City previously suffered will continue into the foreseeable future.

Officials from **Hannibal School District #60** indicated they do not believe this petition would produce any additional cost or savings to their school district.

Officials from **Rockwood R-VI School District** indicated they did not find anything objectionable in this petition that would result in a cost or savings for them.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact on their organization as a result of this initiative petition.

Metropolitan Community Colleges indicated this petition would have no significant direct fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Elementary and Secondary Education**, the **Department of Natural Resources**, the **State Treasurer's Office**, **Cole County**,

Greene County, Jackson County, St. Louis County, the City of Columbia, the City of Gladstone, the City of Kansas City, the City of Kirkwood, Cape Girardeau 63 School District, the University of Missouri, and St. Louis Community College.

Fiscal Note Summary

The total cost or savings to state or local governmental entities is unknown. Most state governmental entities estimate no costs, however, some state governmental entities may have indirect costs or unknown costs that may exceed \$100,000. Estimated costs, if any, to local governmental entities could be significant.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-50)**

Subject

Initiative petition from Ron Calzone regarding a proposed constitutional amendment to Article I, Sections 26, 27, and 28. (Received December 17, 2008)

Date

January 6, 2009

Description

This proposal would amend Article I, Sections 26, 27, and 28 of the Missouri Constitution.

The amendment is to be voted on in November, 2010.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Office of the State Public Defender**, the **Missouri Senate**, the **Secretary of State's Office**, the **State Tax Commission**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **Jackson County**, **St. Louis County**, the **City of Columbia**, the **City of Gladstone**, the **City of Kansas City**, the **City of Kirkwood**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community Colleges**, the **University of Missouri**, and **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated this proposal creates no fiscal impact on their agency.

Officials from the **Department of Economic Development** indicated this petition will have no fiscal impact on their department.

Officials from the **Department of Higher Education** indicated this initiative would have no direct, foreseeable fiscal impact on their agency.

The **Department of Health and Senior Services** indicated no impact for their department.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated passage of this initiative will have no cost or savings to their department.

Officials from the **Department of Mental Health** deferred its response to the Office of Administration-Division of Facilities Management, Design and Construction who is responsible for managing state-owned and leased property utilized by the department.

Officials from the **Department of Corrections** indicated the impact on their agency as a result of this initiative is unknown. They deferred to the Office of Administration-Division of Facilities Management, Design and Construction to address property issues and any resulting fiscal impact on behalf of state agencies.

The **Department of Labor and Industrial Relations** indicated this petition has no fiscal impact on their department.

The **Department of Revenue** indicated this petition will have no fiscal impact on their department.

The **Department of Public Safety** indicated there is no fiscal impact for this petition on their department.

Officials from the **Department of Social Services** indicated there is no fiscal impact on their agency as a result of this initiative petition.

Officials from the **Governor's Office/Office of Administration** indicated this proposal will have no fiscal impact on their agencies.

The **Missouri House of Representatives** indicated this initiative petition has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that no fiscal impact to their department would be expected as a result of this proposal.

The **Office of State Courts Administrator** indicated that this initiative petition should not have a fiscal impact on the judiciary.

Officials from the **Department of Transportation** indicated this initiative petition changes property acquisition procedures and limits property acquisition by public entities, including their department, which will impact their department. They estimate it would significantly delay their department's project delivery process and would increase their property acquisition costs, based on the constitutional changes described by the department [Missouri Department of Transportation (MoDOT)/Missouri Highway and Transportation Commission (MHTC)] below:

Limits Eminent Domain Authority: Section 26 is amended to state that eminent domain power shall only vest in the state, including state entities expressly granted such power by this constitution, and in political subdivisions of the state whose officials are directly accountable to elected officials. Private property will not be taken or damaged unless the taking is necessary for a public use and just compensation is paid. This change should not prohibit MoDOT from condemning property to be used for state highway system purposes (as authorized by article IV, section 30(b)) or for the state transportation system (authorized by article IV, section 30(c)).

Appraisal Methods: Section 26 changes the way property is to be valued for just compensation arising from a condemnation proceeding. The initiative petition would allow any appraisal method used in the ordinary scope of business to be admissible in a condemnation proceeding. This change could have a significant, unknown negative fiscal impact on MHTC and MoDOT.

Interlocutory Appeals: Section 26 would also prohibit use of the condemned land by the condemnor until all legal challenges to the condemnation are final. This process could take years and delay project lettings. Appellate courts have typically recognized a very limited number of legal challenges against a condemnation petition: (1) fraud; (2) bad faith; or (3) arbitrary and unwarranted abuse of discretion. By allowing any legal challenge to the condemnation petition, this significantly alters the number and types of challenges to a condemnor's petition to condemn, which will significantly delay the acquisition of property for MHTC's state highway construction program, and which will also encourage more landowners to contest MHTC's authority to condemn property in an attempt to force MHTC to pay more money for the property or risk delaying the project. Delay of projects results in a negative fiscal impact, loss of safety benefits from constructing such projects on time, as well as the additional inflation costs for the construction projects that arise through such delays.

Takings for Private Ownership Prohibited: Section 28(1) would prohibit takings for private ownership and could therefore be construed to bar condemnations for certain public-private partnerships, transportation corporations, transportation development districts and the like. There is no exception to the private use prohibition for transportation projects, except as it relates to railroads and to regulated utilities. Therefore, private property could not be acquired by MHTC and later transferred, even by lease, to a private person for a public use. This provision would result in a negative, unknown fiscal impact to MoDOT.

Corridor Preservation 5 Year Limitation: Section 28(2) would allow landowners to claim their property back from the condemnor after 5 years and at the original price paid if the project is not substantially pursued. This language would repeal existing section 226.955 RSMo, which authorizes a 10 year construction initiation time limit on MHTC corridor acquisitions. This provision would significantly undermine MHTC's authority to do long-range planning and acquire property within a designated highway corridor in advance of design and construction because of the 5 year time frame to substantially accomplish the project. This language will also have a significant, negative unknown fiscal impact on MHTC and MoDOT.

Easements Only: Section 28(3) would allow the taking of property for transportation or utility facilities or transmission systems used by a railroad, regulated utility or rural electric cooperative, but the fee of property taken for these purposes without consent of the owner will remain in the owner subject to the use for which it is taken. Condemnations for transportation purposes that occur under this section shall be limited to right of way easements only, and fee simple title will be reserved in the landowner unless the landowner consents to give the condemnor fee simple title.

Whether this provision will negatively impact MoDOT depends upon how the language in this section is interpreted. If the provisions of this section are only applicable to condemnations by a railroad, regulated utility or rural electric cooperative for transportation purposes, then this section should not impact MHTC. If, however, this section is applicable to all takings for transportation purposes, then this provision will adversely impact the value of excess right of way that MHTC holds by only an easement rather than having fee simple title and will therefore have a negative, unknown impact upon MHTC.

Right of First Refusal 20 Year Limitation: Section 28(4) also would prohibit a condemnor from selling or leasing condemned property or allowing its use by a private entity within 20 years of the acquisition unless the owner or the owner's successor in title has been given the opportunity to buy the property back for the original price paid at the time of the taking. Please note that this IP also amends section 27 so that the sale of any excess property is now subject to this section 28(4). This provision might be construed by a court to prohibit conveyances or

leases to certain public-private partnerships, transportation corporations, transportation development districts and the like. This language will have a significant, unknown fiscal impact on MHTC and MoDOT.

MoDOT is unable to provide an estimate of the negative fiscal impact this initiative petition will have upon the department if it is approved by the voters; therefore, the negative fiscal impact due to this petition is unknown, greater than \$100,000.

Officials from the **Office of the State Public Defender** indicated this petition will not have any significant impact on their agency.

The **Missouri Senate** indicated this initiative appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article I, Section 26, 27, 28 of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2009, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$1.35 million to publish (an average of \$270,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

The **State Tax Commission** indicated this petition will not have a fiscal impact on their agency.

The **City of St. Louis** indicated the initiative petition would result in significant increases in cost and significant amounts of lost revenue to the city. In addition, the following related information was provided by the city.

The initiative petition proposes changes to Article I, Sections 26, 27, and 28 that would prohibit the use of eminent domain for redevelopment by providing that: (a) only public entities can acquire property using eminent domain; (b) no private ownership or other private rights shall be considered a public use; (c) the future use must be declared at the time of acquisition and cannot be changed; and (d) the public entity that acquired the property via eminent domain cannot transfer such

property to private ownership any sooner than twenty (20) years following the acquisition unless the original owner has been offered the right to buy back the property at the original price or unless the private owner is providing products or services incidental to the function of a publicly owned facility. Section 5 of the proposed amendment to Article I, Section 28, also appears to change Article VI, Section 21, by effectively stripping out the ability of local governments to use eminent domain for redevelopment that involves private entities through a provision that states that the proposed revisions to Article I, Sections 26, 27, and 28 limit the application of Article VI, Section 21. These proposed changes will result in both extreme costs and extreme loss of revenue to the City. The city uses eminent domain sparingly. But it is a very important tool that is vital in their efforts to overcome hundreds of acres of blight caused by five decades of suburban flight.

In 1950, the city had 850,000 people—today, they have just over 350,000. As a result of this population loss, there are now thousands of vacant lots and structures in the City of St. Louis. As a result of this population loss, many former residences and businesses have now become vacant buildings and vacant lots. Many of these vacant properties have fallen into city ownership by default—when the private owner did not pay property tax due, the property was placed in a tax foreclosure sale, and if a private party did not bid on the property its ownership was transferred to the Land Reutilization Authority. Redeveloping this decay would be easy if all of the properties were side by side—and if all of our vacant buildings and lots were owned by the city. In fact, they are not. The city-owned properties are scattered among many properties in the hands of private owners. Too many of these privately held properties are also blighted, making it very difficult—and in some cases nearly impossible—to redevelop these run-down areas. The vast majority of our privately owned vacant buildings and lots are not maintained by their private owners.

The result is that some of the City of St. Louis' neighborhoods are the best in the State of Missouri. But, others are plagued by poverty, poor infrastructure, and violence.

The City of St. Louis has made great progress in turning some of these neighborhoods around. But, it would not have happened without the possible use of eminent domain. Other neighborhoods waiting to be redeveloped will remain blighted if developers do not know at the beginning of a project that they will be able to complete it.

Eminent domain is needed to eradicate the vacant, abandoned, dangerous and problem properties that were left behind when half a million people left the City of St. Louis.

Eminent domain is needed to eradicate the vacant, abandoned, dangerous and problem properties that were left behind when half a million people left the City

of St. Louis. Private participation in the redevelopment process is necessary because the city does not have the resources to acquire the thousands of problem properties in the city, eliminate the problematic conditions, and hold the property for twenty (20) years. These properties were never used for governmental purposes and were not intended for governmental use. The city does not wish to—and cannot afford to—use public funds and eminent domain to purchase these properties, use public funds to redevelop them—and then own them and operate them for what are essentially private business and residential purposes for a twenty-year period. As provided in the proposed amendment, the city will not even be able to enlist the assistance of private enterprise in the operation of the properties or to realize any income from the property to offset the expense of acquiring and redeveloping it for the twenty-year period, because the proposed amendment prohibits the property from being “sold, leased, transferred, or otherwise made available for use by a private party within 20 years of such taking...unless the private owner is providing products or services incidental to the function of a publicly owned facility.” Private redevelopment and ownership will allow the city to rebuild its tax base; public ownership for a twenty-year period, on the other hand, will cost the city millions upon millions of dollars and result a veritable wasteland for two decades since it will not be possible for the city to use the property in any manner that allows the city to recoup even a portion of its investment—if it were even possible for the city to make the investment in the first place. Since city funds are not available, it will not possible to address these conditions with the limited and weak mechanisms that will remain if the amendment passes. Thus, the proposed amendment would sentence the city to another five—and more—decades of decline, disinvestment and population loss as people and businesses again leave the city because they cannot tolerate negative conditions that the city is powerless to change. The city needs to rebuild the market for city real estate and rebuild its tax base in the process—the proposed amendment would make it impossible for the city to do this.

Even more important, the amendment will make it impossible for the city to address the redevelopment of blighted areas in a manner that returns these areas to productive uses that generate tax revenues for the city and the State of Missouri. The redevelopment of blighted areas necessarily involves the participation of the private sector, which the amendment would prohibit for a twenty-year period. Developments like CORTEX, the new Pinnacle entertainment development, and Botanical Heights would no longer be possible—and it may not even be possible to complete those major developments that are already underway. It is critical that the city retain the ability to address blighted areas and to partner with private enterprise for the redevelopment of these blighted areas—the city cannot address the distress that currently exists in the city using public funds alone. The reason they need redevelopment is because their tax base has eroded over the past fifty years. They cannot reconstruct their tax base without the ability to address blighted areas, and they cannot reconstruct their tax base without partnerships with private enterprise. The proposed amendment would prohibit partnerships with private enterprise in redevelopment.

If the city is forced to address its distressed areas by using city funds and twenty-year city ownership to cure the distress, before having the ability to acquire and sell the property to responsible owners, the result will be a significant additional cost to the City of St. Louis, as detailed on the attachments below. Further, since the city cannot possibly afford this cost, estimated at over \$40 million per year, the vast majority of these distressed areas will remain distressed. The proposed amendment would render the city powerless to arrest the decline that has occurred over the past five decades, and set the stage for greater decline in the future as the proposed amendment rewards speculators, slumlords and predatory land owners for their irresponsible behavior by eliminating one of the few effective tools for addressing the problems they cause.

Over the years, the city has also come to own many properties in distressed areas due to property tax and other lien foreclosures—this is but one symptom of areawide distress. Many of the distressed properties in the city remain in private ownership, even though they are for all practical purposes abandoned, because their owners pay minimal property taxes and weed and trash removal liens. Approximately 3,700 vacant buildings and 10,000 vacant lots remain in private ownership. This private ownership of abandoned property causes problems for both neighboring residents and businesses and the city and impairs the city's ability to heal itself after five decades of decay.

In addition, redevelopment of both publicly owned and privately owned vacant properties is seldom feasible without the ability to combine those parcels with other blighted property for redevelopment, since most of the city was originally platted in 25-foot frontage increments. Today, a 25-foot lot is virtually useless for any purpose, residential or commercial. The proposed amendment would render the city unable to engage in redevelopment of these properties unless the city used public funds to do so. As detailed on the attachments below, they estimate that this inability to engage in redevelopment would cost the city more than \$40 million annually in lost future revenues, in addition to the \$40 million in additional city costs the city would incur in direct city funding of redevelopment activities directed towards alleviation of nuisance and problem properties.

The analysis in Attachment B provides detail on the types of costs the city would incur and the types of revenue losses the city would suffer if the amendment were to become law. Given the complexity of the issue and the amount of time available to provide this fiscal note, these figures are necessarily estimates. They believe, however, that the methodology described in Attachment B provides a reasonably accurate assessment of the fiscal impact to the City of St. Louis related to the impacts analyzed. In addition, in the interest of time, the attached assessment does not include each and every fiscal impact on the city—there are others which could be detailed if more time were available. The attached chart (Attachment A) summarizes the results of the methodologies applied in Attachment B and the estimated fiscal impact of the constitutional amendment.

As noted on the chart in Attachment A, they estimate that the total negative fiscal impact of the proposed Constitutional Amendment on the City of St. Louis is nearly (\$70 million) annually, and nearly (\$750 million) over a ten-year period. In addition, the amendment would produce a related negative fiscal impact on responsible private property owners whose property values suffer because of blight, absentee landlords, and predatory land owners.

ATTACHMENT A
SUMMARY OF FISCAL IMPACT ESTIMATE:
EMINENT DOMAIN INITIATIVE PETITION
(Estimate Details Provided on Exhibit B)

CITY OF ST. LOUIS

COST OR LOST REVENUE ITEM:	ANNUAL COST/ REVENUE LOSS:	10-YEAR COST/ REVENUE LOSS-- 2.5% ANNUAL INFLATION:	NOTES:
ESTIMATED CITY NEW/CONTINUING COSTS:			
Nuisance Identification/Abatement Management:	(\$2,725,000)	(\$31,066,152)	
Nuisance Eradication by:			
--City-Funded Repair:	(\$24,750,000)	(\$282,160,462)	
--Demolition:	(\$1,732,500)	(\$21,945,814)	
--Weed Cutting/Debris Removal:	(\$13,860,000)	(\$123,322,900)	10-year cost reduced by vacant lots assumed to be redeveloped
ESTIMATED CITY NEW/CONTINUING REVENUE LOSSES:			
Property tax impact: Negative impact of vacant/vandalized privately owned properties on adjoining property values:	(\$3,297,210)	(\$37,589,591)	
Property tax impact: Inability to make property available for private rehabilitation:	(\$458,840)	(\$5,230,969)	
Property tax impact: Inability to develop property commercially:	(\$4,740,289)	(\$54,041,293)	
Lost building permit revenue: Inability to make available for private rehabilitation:	(\$364,500)	(\$4,155,454)	
Lost sales tax revenue: Inability to develop property as retail:	(\$14,904,040)	(\$169,912,351)	
Lost earnings/payroll tax revenue: Inability to develop commercially:	(\$1,586,559)	(\$18,087,444)	
TOTALS:	(\$68,418,937)	(\$747,512,430)	

ATTACHMENT B
DETAIL AND METHODOLOGY OF FISCAL IMPACT ESTIMATE:
EMINENT DOMAIN INITIATIVE PETITION

CITY OF ST. LOUIS

PROBLEM/NUISANCE PROPERTIES:
DIRECT CITY COSTS

Most neighborhoods in the City of St. Louis have problem properties. The majority of these properties are privately owned—problems associated with the properties include criminal behavior, excessive trash and noise, collapsing walls, missing windows, open to the elements and to trespass, unsightly conditions, and a host of other issues. These properties plague responsible neighborhood residents and have serious negative impact on residential and business quality of life. While some portion of these problem properties may fall into City ownership due to property tax delinquency, the majority of them will need to be addressed in another manner, because owners continue to pay minimal property tax and retain ownership of these problem properties. The only manner in which many of these properties can be addressed is ultimately via eminent domain, which the proposed amendment eliminates as a redevelopment tool by providing that any property acquired by the City using eminent domain cannot be “sold, leased, transferred, or otherwise made available for use by a private party” for a twenty-year period after the acquisition. The following analysis assumes that the City can in fact acquire the properties and alleviate the problematic conditions and hold them for a twenty-year period, even though this will not be possible in a practical sense, and attempts to calculate the cost. If these properties cannot be addressed with eminent domain and private redevelopment, actions currently undertaken to address problem/nuisance properties will (a) need to continue for the foreseeable future; (b) will need to be multiplied to address all rather than just some of the problems; (c) the City will need to add new staff to carry out the nuisance eradication work and management of the properties. The analysis below does not calculate the additional loss of revenue the City will face as more people and business leave the City because the City is powerless to address their problem and nuisance property concerns, nor does it assume that the City will acquire the properties using eminent domain and hold them for twenty years—it assumes that the proposed amendment effectively eliminates eminent domain as a tool for dealing with problem properties, which is clearly the intent of the amendment. If eminent domain were used and the City were required to hold and operate the properties for a 20-year period, the costs would be far greater than the costs estimated below.

NUISANCE ERADICATION IDENTIFICATION AND MANAGEMENT:

Explanation: The following analysis estimates the cost of the new staff the City will need to put in place to identify problem properties and manage the eradication of the problems without the use of eminent domain and private redevelopment. This analysis assumes that 10% of the estimated nuisances that exist today will be eradicated each year.

NUISANCE ERADICATION IDENTIFICATION AND MANAGEMENT:

• Current cost of problem properties task force:	\$342,000	Actual current cost
• Cost of police officer to serve warrants:	\$60,000	Actual current cost
• Cost to increase problem properties task force by 400%:	\$1,608,000	Current cost X 4
• Cost of staff to manage eradication of 750 nuisances per year (10% of 7,500 total):	\$715,000	(10 staff x \$50K ea.; 2 attorneys @ \$75K each; 1 manager @ \$65K, including
TOTAL ESTIMATED ANNUAL COST:	\$2,725,000	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$31,066,152

NUISANCE ERADICATION BY REPAIR:

Explanation: Occupied privately owned problem properties where owners cannot be induced to make repairs via prosecution will require nuisance eradication by City-funded repair—and it will not be practical or in many cases legal to evict the occupants in order to eradicate the nuisance. The estimated number of such nuisances is 4,000. Further, it will be necessary for the City to rehabilitate some vacant privately owned properties, either because the property is located in an historic district or because the legal risks associated with demolition are too great to risk demolition at a lower cost.

NUISANCE ERADICATION BY REPAIR:

• # occupied building nuisances abated by City:	400	10% of estimated 4,000 buildings
• # vacant nuisances abated by City:	175	5% of estimated 3,500 non-LRA buildings per 2008
• Additional cost to abate occupied building nuisances:	\$10,000,000	Estimated \$25,000 per occupied
• Additional cost to abate vacant building nuisances:	\$17,500,000	Estimated \$100,000 per vacant building
TOTAL ESTIMATED ANNUAL COST:	\$27,500,000	
LESS: 10% cost recovered via lien foreclosure:	(\$2,750,000)	
NET ANNUAL COST:	\$24,750,000	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$282,160,462

NUISANCE ERADICATION BY DEMOLITION:

Explanation: The above analysis assumes that 50% of privately owned vacant nuisance buildings can and should be rehabilitated, and that the remaining 50% require demolition. Often privately owned vacant buildings problem properties fall into such disrepair that the only mechanism for addressing the problem is demolishing the structure on the property. If these properties cannot be addressed by eminent domain before such time as demolition is inevitable, the City will be forced to continue to spend City funds to demolish the properties. While some of the cost of demolition is recoverable through the lien and foreclosure process, this is only a small (less than 10%) portion of the cost.

NUISANCE ERADICATION BY DEMOLITION:

• # of privately owned vacant buildings requiring demolition:	175	5% of estimated 3,500 non-LRA buildings per 2008
• Average cost to demolish each privately owned vacant buildings:	\$11,000	5% of estimated 3,500 non-LRA buildings per 2008
TOTAL ESTIMATED ANNUAL COST:	\$1,925,000	
LESS: 10% cost recovered via lien foreclosure:	(\$192,500)	
NET ANNUAL COST:	\$1,732,500	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:	\$21,945,814	

NUISANCE ERADICATION BY WEED CUTTING & DEBRIS REMOVAL:

Explanation: Many privately owned problem properties are vacant; other privately owned properties have improvements but are abandoned—e.g., the owner does nothing to maintain the property. In both of these situations, City funds must be spent to remove unsightly conditions from the property so that the properties cause the least amount of harm to other properties on the block. While some of the cost of is recoverable through the lien and foreclosure process, this is only a small (less than 10%) portion of the cost. No deduction is made in this category for parcels acquired via property tax foreclosure, since once the property and the neighborhood deteriorate due to irresponsible property ownership it takes a long period of time for the property to be placed into productive use and the City must still maintain the property in the meantime to the best of the City's ability. Unlike the cost to abate nuisances, these costs cannot be spread over a number of years—maintenance must be performed annually. If liens are imposed and foreclosed upon, in most instances the private owner will not pay off the liens—thus, the property falls by default into public ownership and the City will be still responsible for maintaining the property on an ongoing basis, unless and until the City can sell the property to another private owner.

NUISANCE ERADICATION BY WEEDCUTTING & DEBRIS REMOVAL:

• # of privately owned vacant lots requiring demolition:	7,000	70% of total 10,000 vacant lots
• Average cost per lot for weedcutting/debris removal:	\$2,200	8 events/year @ \$275/event
TOTAL ESTIMATED ANNUAL COST:	\$15,400,000	
LESS: 10% cost recovered via lien foreclosure:	(\$1,540,000)	
NET ANNUAL COST:	\$13,860,000	
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation, 5% inv. reduction per year:	\$123,322,900	

LOST REVENUES

NEGATIVE IMPACT ON ADJOINING PROPERTIES:

Explanation: Vacant and abandoned properties drive down the value of other properties located on the same block. The abandonment of a property is visible signal that its owners do not care about it to other owners on the block and to those who otherwise might be interested in purchasing property on the block. The City receives a high volume of complaints each year about vacant and vandalized privately owned properties. In 2005, according to the City's vacant building survey, the City had 3,751 privately owned residential vacant and vandalized buildings located on approximately 1,631 City blocks—the number of vacant and vandalized properties per block ranged from 1 to 16. The City must be able to take these properties out of the hands of

irresponsible owners who care nothing about the surrounding neighborhoods. If the City cannot do so, the City and other taxing jurisdictions will suffer from the negative impact of these problem properties on other properties forever, with no way to take back neighborhoods from owners that wreak havoc on our neighborhoods and responsible neighbors' lives. Assuming that each City block with one or more abandoned property reduces the value of other properties on the block by 10% (believed to be a conservative number in blocks that are plagued with more than one vacant and vandalized property), the cost to the City and other taxing jurisdictions in property taxes and the cost to adjacent owners in reduced property values are calculated below. No deduction is made in this category for parcels acquired via property tax or nuisance eradication lien foreclosure because the damage to neighboring property values has already been done by the time the City acquires the property through tax or nuisance eradication lien foreclosure. With eminent domain, the City has the ability (assuming funding is available) to acquire the property before damage to neighboring property values becomes irreversible.

NEGATIVE IMPACT ON ADJOINING PROPERTIES:

• Total # of City blocks (approximate):	5,771	Per City Assessor's
• Total # of parcels:	103,475	Per City Assessor's
• Average parcels/City block:	17.93	Per City Assessor's
• City blocks w/vacant & vandalized buildings:	1,618	Per City Assessor's records/ vacant
• Parcels negatively impacted by vacant buildings:	29,011	
• Average assessed value of residential parcel:	\$17,500	
• Total value parcels w/vacant buildings on block:	\$507,692,709	Parcels negatively impacted x average
• Estimated negative impact on assessed values of parcels due to vacant buildings on block:	(\$50,769,271)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ESTIMATED LOST REVENUES:	\$3,297,210	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$37,589,591	

In addition, nuisances hurt adjacent property owners by negatively impacting the value of the adjacent owners' property. This hurts owners by impairing their ability to sell or borrow against the property at a higher value.

NEGATIVE IMPACT ON MARKET VALUE OF NON-VACANT PRIVATELY OWNED PROPERTIES :	\$267,206,689	Assessed value/.19 = impact on market value
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LOST REVENUES DUE TO LACK OF PROPERTY IMPROVEMENT BY PRIVATE PARTIES:

Explanation—Vacant Building Rehabilitation: In addition to the loss of property tax associated with negative impacts on surrounding non-vacant properties, the fact that owners allow vacant and vandalized properties to deteriorate also costs the City and other taxing jurisdictions in lost tax revenue. When privately owned formerly abandoned or vacant properties are redeveloped as private property, these properties add growth to the City's tax base above and beyond the growth permitted by the Hancock Amendment. In addition, it is not reasonable to expect that the City itself would rehabilitate and occupy these properties that were formerly occupied by private parties—if the City were required to rehabilitate and occupy the properties forever, it would cost the City significant amounts of money to rehabilitate the properties, as described above, and to maintain the properties in the event that private parties do not purchase them. Further, if the City rather than private parties rehabilitates and occupies the properties (as

is required by the amendment—the City cannot take the property by eminent domain and sell it to a private owner for rehabilitation), the City will lose revenue that it would otherwise collect due to fees on improvement costs. The following factors are used below to calculate the loss of tax revenues associated with the fact that the City will be unable to encourage property improvement and tax base growth if the amendment is passed:

LOST REVENUE DUE TO LACK OF PRIVATE PROPERTY IMPROVEMENT:

• Average assessed value of privately owned vacant/vandalized building:	\$7,545	2005 value per City Assessor w/2.5%
• Average sales price--single-family home:	\$164,698	City Assessor Data--
• Average assessed value--single-family home:	\$31,293	
• Assessed value lost due to inability to make vacant buildings available for private rehabilitation:	\$23,748	
• # of privately owned vacant buildings that could be privately rehabilitated per year if available:	350	10% of total 3,500 buildings
• Total annual assessed value lost due to inability to make vacant buildings available for private rehabilitation:	(\$8,311,829)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ANNUAL ESTIMATED LOST PROPERTY TAX REVENUE:	\$539,812	
LESS: 15% to City ownership via tax foreclosure:	(\$80,972)	
NET ANNUAL COST:	\$458,840	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$5,230,969	

LOST BUILDING PERMIT FEE REVENUE:

• # of privately owned vacant buildings that could be privately rehabilitated per year if available:	350	10% of total 3,500 buildings
• Approximate average rehabilitation cost:	\$100,000	
• Approximate total rehabilitation cost:	\$35,000,000	
• Building Permit Fee rate:	\$9/\$1000	City Assessor Data--
• # of privately owned occupied buildings that could be privately rehabilitated per year if available:	400	10% of total 4,000 buildings
• Approximate average rehabilitation cost:	\$25,000	
• Approximate total rehabilitation cost:	\$10,000,000	
• Building Permit Fee rate:	\$9/\$1000	City Assessor Data--
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$405,000	
LESS: 20% private owner compliance:	(\$40,500)	
NET ANNUAL COST:	\$364,500	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$4,155,454	

Explanation—Lost Revenue due to Lack of Vacant Land Redevelopment: Many privately owned City properties are vacant lots where the improvements have been demolished, either by the City or by the private owner. These vacant lots are scabs on otherwise intact neighborhoods. In many city neighborhoods, these vacant lots outnumber parcels with improvements. In many cases, the vacant parcels, 25' wide, are flanked by other vacant properties owned by multiple owners. The City's inability to use eminent domain to assemble these vacant lots and abandoned properties and return them to productive use will result in significant lost revenues—sales tax revenues, property tax revenues and payroll/earnings tax revenues. In addition, the development of new retail and other facilities is essential to preserving the City's existing population and encouraging new residents to locate in the City. Such development is currently occurring in the

City but will come to a halt if the amendment passes. The following factors are used below to calculate the loss of tax revenues associated with the fact that the City will be unable to encourage commercial redevelopment of abandoned property and tax base growth if the amendment is passed:

LOST REVENUE DUE TO LACK OF VACANT LAND REDEVELOPMENT:

• # of privately owned vacant lots in City:	10,131	2005 City Assessor
• Average area of one (1) vacant lot:	4,687	125' x 37.5'
• Total vacant lot area:	47,483,997	125' x 37.5'
• Additional 50% City-owned vacant lots that cannot be redeveloped w/o adjacent privately owned lots:	23,741,999	
• Total developable vacant lot area:	71,225,996	
• Assume 10% of vacant lot area could be redeveloped as retail:	7,122,600	
• Assumed building coverage for retail:	25%	
• Total area not developed as retail:	1,780,650	
• Average retail sales/sq. ft./year:	\$300	
• Total retail sales lost:	\$534,194,966	
• City sales tax rate:	3.10%	City Budget Office
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$16,560,044	
LESS: 15% to City ownership tax foreclosure/other:	(\$1,656,004)	
NET ANNUAL COST:	\$14,904,040	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$169,912,351	
• Average jobs/1,000 sq. ft. retail:	3	
• Total retail jobs lost:	5,342	
• Average annual salary/retail job:	\$22,000	
• Total payroll lost:	\$117,522,893	
• City earnings/payroll tax rate:	1.50%	City Budget Office
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$1,762,843	
LESS: 15% to City ownership tax foreclosure/other:	(\$176,284)	
NET ANNUAL COST:	\$1,586,559	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$18,087,444	
• Average assessed value of privately owned vacant parcel:	\$3,772	2005 value per City Assessor w/2.5%
• Average assessed value commercial non-vacant parcel:	\$57,139	2005 value per City Assessor w/2.5%
• Assessed value difference--vacant/non-vacant:	\$53,367	
• # of privately owned vacant lots in City:	10,131	2005 City Assessor
• Additional 50% City-owned vacant lots that cannot be redeveloped w/o adjacent privately owned lots:	5,066	
• Total developable parcels:	15,197	
• Assume 10% of vacant lot area could be redeveloped as retail:	1,520	
• Total estimated assessed value increase if parcels were developed:	(\$81,099,195)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ANNUAL ESTIMATED LOST PROPERTY TAX REVENUE:	\$5,266,987	
LESS: 15% to City ownership tax foreclosure/other:	(\$526,699)	
NET ANNUAL COST:	\$4,740,289	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$54,041,293	

ATTACHMENT B (CONT'D)
OTHER FISCAL IMPACTS:

Non-Physical Nuisances: The proposed amendment does not clearly define “nuisance.” Non-physical nuisances (e.g., criminal activity, drugs, antisocial behavior) are difficult if not impossible to cure and cannot be cured with “eradication” activities that place a lien on the property. Often the use of eminent domain is the only way to get such a property out of the hands of problem owners and into the hands of a responsible party.

Inability to Redevelop as Higher Quality Residential Property: Much of the City’s housing stock is obsolete and unattractive to the modern housing market. Eradicating nuisances per se does not allow the City to redevelop obsolete residential property into homes that will attract modern residents. Thus, the inability to redevelop obsolete and deteriorated residential property as higher quality residential property also has a cost. This cost can be estimated but we have not taken the time to do so here.

Inability to Adequately Address Blighted Areas and Impact on Other Property: The City has been in a continuing state of decline for the past five decades. Only recently has this decline been arrested. Now the City’s problems are slowly but surely being turned into opportunities, in large part because people believe that the City is making progress and will continue to do so. This progress has been possible due in large part to the availability of eminent domain for private redevelopment. If the proposed amendment becomes effective, this progress will come to a halt, and this in turn will (a) discourage “new” investors and homeowners from giving the City a chance, and (b) discourage those who have already invested in the City from remaining. The City has many problems, and those problems are being addressed, but total transformation cannot and will not happen overnight. It is essential that the City be able to continue to make progress if the successes recently experienced are to be sustained. If eminent domain is not available as a redevelopment tool in conjunction with private redevelopment, businesses and residents will once again leave the City and the same kinds of decline, disinvestment and population loss that the City previously suffered will continue into the foreseeable future.

Officials from **Hannibal School District #60** indicated they do not believe this petition would produce any additional cost or savings to their school district.

Officials from **Rockwood R-VI School District** indicated they did not find anything objectionable in this petition that would result in a cost or savings for them.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact on their organization as a result of this initiative petition.

Metropolitan Community Colleges indicated this petition would have no significant direct fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Elementary and Secondary Education**, the **Department of Natural Resources**, the **State Treasurer's Office**, **Cole County**,

Greene County, Jackson County, St. Louis County, the City of Columbia, the City of Gladstone, the City of Kansas City, the City of Kirkwood, Cape Girardeau 63 School District, the University of Missouri, and St. Louis Community College.

Fiscal Note Summary

The total cost or savings to state or local governmental entities is unknown. Most state governmental entities estimate no costs, however, some state governmental entities may have indirect costs or unknown costs that may exceed \$100,000. Estimated costs, if any, to local governmental entities could be significant.

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-52)**

Subject

Initiative petition from Todd Jones regarding a proposed amendment to Article III of the Missouri Constitution. (Received December 23, 2008)

Date

January 9, 2009

Description

This proposal would amend Article III, Section 38 of the Missouri Constitution.

The amendment is to be voted on in November, 2010.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Tax Commission**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **Jackson County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community Colleges**, the **University of Missouri**, **St. Louis Community College**, the **University of Central Missouri**, **Harris-Stowe State University**, **Lincoln University**, **Missouri State University**, **Missouri Southern State University**, **Missouri Western State University**, **Northwest Missouri State University**, **Southeast Missouri State University**, **Truman State University**, the **Missouri Technology Corporation**, and the **Missouri Life Sciences Research Board**.

Brad Ketcher of the Ketcher Law Firm, LLC, and **Senator Joan Bray** provided information to the State Auditor's Office.

Assumptions

Officials from the **Attorney General's Office** indicated that the implementation of this proposal creates no fiscal impact for their office. However, they assumed that because this proposal has the potential to be the subject of state litigation, potential costs are unknown.

The **Department of Economic Development** indicated this proposal would have a significant negative impact on General Revenue, federal funds and local funds. The department anticipates a negative impact on public and private research institutions as well as on economic development efforts of local and regional government. In addition, they indicate that the passage of this constitutional amendment could have significant impact on small technology business growth and development.

The department assumes that placing the issue on the ballot by initiative petition will have no impact on General Revenue. However, they indicate that passage of the ballot initiative could have impact on the general revenue of this state. While the department did not make any fiscal projections, they do anticipate that this could have a significant economic impact and therefore impact general revenue.

This bill should have no known direct administrative or fiscal impact on the department. However, they do indicate there is a possibility that impact on the state general revenue could impact their agency to an unknown extent. If passed, this proposal could impact the department's mission to attract and retain business as well as grow business within the state.

The department also indicated that passage of the constitutional amendment could have significant economic impact on future research, entrepreneurship, and business development within Missouri. The department did not conduct any specific fiscal or economic projections on the impact of the constitutional amendment. However, they do anticipate that future projects and opportunities could be put at risk by passage of this amendment.

The **Department of Higher Education** indicated no direct, foreseeable impact on their department resulting from this proposal.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this initiative, if passed, will have no cost or savings to the department.

The **Department of Mental Health** indicated the implementation of this initiative will have no fiscal impact to their department.

The **Department of Corrections** indicated no impact on their agency as a result of this proposal.

The **Department of Labor and Industrial Relations** indicated the petition has no fiscal impact on the department.

The **Department of Revenue** indicated the petition will not have a fiscal impact on the department.

The **Department of Public Safety** indicated there is no fiscal impact for their department.

The **Department of Social Services** indicated there is no fiscal impact to the department. Officials assume there will be no change to the MO HealthNet program and no fiscal impact. In accordance with Public Law 105-798 (1997) relating to abortions, Medicaid payment is only available for abortions performed when the life of the woman would be endangered if the fetus were carried to term or the pregnancy is the result of rape or incest. The United States District Court case of the Department of Social Services v. the Secretary of Health and Human Services states “if the State of Missouri chooses to accept federal funds pursuant to Title XIX, it must provide funding for abortions terminating pregnancies resulting from rape and incest as well as those necessary to save the life of the pregnant woman.”

Officials from the **Governor's Office/Office of Administration** indicated this proposal will have no fiscal impact on their agencies.

Officials from the **Missouri House of Representatives** indicated this petition will have no fiscal impact to the operations budget of their agency.

The **Department of Conservation** indicated no fiscal impact expected to their department as a result of this proposal.

The **Office of the State Courts Administrator** indicated that the proposed initiative petition should not have a fiscal impact on the judiciary.

The **Department of Transportation** indicated this petition has no impact on their department.

Officials from the **Missouri Senate** indicated that the petition appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article I, Section 26, 27, 28 of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding

for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2009, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$1.35 million to publish (an average of \$270,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this initiative will not have any significant impact on their office.

The **State Tax Commission** indicated this petition will not impact their organization.

The **City of Jefferson** indicated that they do not anticipate any fiscal impact should this petition become law.

The **City of Kansas City** indicated this petition will have a negative fiscal impact on the city. They estimate this initiative would cause a loss of revenue for the city of approximately \$270,000 in FY 2010, approximately \$320,000 in FY 2011 and approximately \$380,000 in FY 2012. Such loss of revenue would occur because of the anticipated negative effect this legislation would have on the Stowers Institute for Medical Research, which is located in Kansas City and conducts biomedical research, and the consequent loss of earnings tax to Kansas City resulting from staff reductions at the Stowers Institute.

The **City of St. Louis** indicated that the fiscal impact of the proposed constitutional amendment will be both extremely serious and extremely negative with \$14.3 million in annual lost revenue as a conservative estimate of this negative impact on the city.

The new initiative petition filed by opponents of stem cell research purports to ban “human cloning.” In addition to what is commonly thought of as “human cloning”—a practice already banned by the Missouri Constitution—the amendment will ban one of the most promising new types of stem cell research, somatic cell nuclear transfer or “SCNT,” a procedure for medical research or for treating disease that involves replicating (or “cloning”) a patient’s own skin cell in a lab dish in order to create healthy new cells to help treat his or her disease. This process is currently permitted by the Missouri Constitution but would be banned if the proposed amendment is passed. SCNT is also sometimes referred to as “therapeutic cloning” because the cells are copied for the purpose of providing or developing a therapy for a patient’s disease or injury.

The economy of the City of St. Louis is closely tied to the city’s image as a cutting edge center for medical research. The City of St. Louis ranks 12th in a listing of the Top 100 Cities for grants from the National Institutes of Health, with \$441 million in grants

flowing into the City in 2005 from NIH sources. This \$444 million represents 85% of all NIH support flowing into the State of Missouri. These grants support our hospitals and medical schools (Washington University School of Medicine, St. Louis University, Barnes-Jewish Hospital, and St. Louis Children's Hospital), and, assuming that 60% of the funding pays salaries, account for approximately 5,300 jobs in the city. If only half of these jobs are lost—and it is a given that many of these jobs will be lost over time if this amendment is passed—the city will lose \$1.3 million in revenue each year—\$50,000 x 5,300 x 50% x .01 city earnings tax.

As the following table shows, the city's hospitals alone account for nearly 19,000 jobs in the city, and other medical, professional and scientific and technical occupations account for an additional 15,000 jobs. Thus, 34,000 of the city's 221,000 jobs—nearly 17%—are related to medical research and treatment and related professional occupations. Many additional jobs reside in the city's colleges and universities—because colleges and universities do not report their employment data in the same manner as other places of business, detailed job and wage data for colleges and is not available from the U. S. Bureau of Labor Statistics.

A threat to ban and criminalize any type of medical research puts a black cloud over our entire state. Scientists in general will view Missouri as a regressive and unfriendly place for life sciences research, and those who make careers of cutting-edge research will not locate in Missouri. In recruiting scientists and companies, perception of the research environment is very important. Some scientists have already said that they would not come to Missouri due to threats to overturn Amendment 2 and potentially criminalize research. The initiative petition now proposed will have a drastic impact on our universities and medical schools. These schools are the engines that drive both our existing medical and research facilities and the promise of a thriving concentration of young and mature science-based companies, like those who are beginning to occupy the CORTEX campus.

The proposed amendment will not only discourage growth in the institutions and businesses directly impacted by the amendment—the deleterious impact on health care over time will also impact the quality and size of their hospitals and the city's ability to attract and retain talent and employers from any industry. Quality of life, in particular quality of available medical care, has become a top issue in the selection of company locations. St. Louis enjoys access to some of the world's premier health care facilities in Washington University, the BJC Medical Center, and Saint Louis University, all of which are teaching hospitals. The regressive negative intellectual environment created by opposition to the newest medical research and treatments will certainly erode this quality of care as it will no longer be possible to attract top students for these schools and top professionals to staff the hospitals. This proposed Constitutional Amendment banning promising forms of stem cell research would also criminalize any patient who might one day get a cure from such a procedure, thus costing these hospitals patients. Again, restricted access to the newest areas of medicine erodes the quality of life we take for granted from the great medical institutions available to us now.

RESEARCH-RELATED JOBS AND WAGES IN THE CITY OF ST. LOUIS

Source: U. S. Bureau of Labor Statistics--2006

TYPE	BUSINESSES	JOBS	TOTAL ANNUAL WAGES	% OF TOTAL BUSINESSES	% OF TOTAL JOBS	% OF TOTAL WAGE BASE
Medical Equipment & Supplies Manufacturing	15	516	19,613,949	0.19%	0.23%	0.19%
Professional, Scientific & Technical Services	889	14,642	952,212,500	11.11%	6.63%	9.12%
Hospitals	13	18,634	769,206,410	0.16%	8.43%	7.37%
TOTALS--LIFE SCIENCES RELATED:	917	33,792	1,741,032,859	11.46%	15.29%	16.67%
City of St. Louis Totals:	8,000	221,000	10,442,455,000	100.00%	100.00%	100.00%

A 10% loss of jobs in the three categories shown in the above table will cost the city more than \$10 million each year in direct loss of the 1% city earnings tax from these employees. It is also safe to say that this 10% loss will have a similar ripple effect in the thousands of other employees who serve the needs of the hospitals—laundry services, transportation, construction, wholesale food sales, and others.

In addition, passage of the proposed amendment will cost the city growth. The Battelle Institute of Cincinnati has already predicted that if current trends (absent this amendment) continue, Missouri will be eclipsed as a life science-driven economy by other states and regions. On the other hand, Battelle also predicts that if the state aggressively pursues the life sciences and makes the necessary investments over the next ten years in the research capacity and technology commercialization areas, the state would add more than 21,000 permanent jobs in life science industries, for the most part well-paid, quality employment. Conservatively assuming that one fourth of these jobs would be located in the city, given the city's predominance as a center for medical research, further assuming conservatively that each new job had a salary of \$50,000 per year, and further assuming that this salary grew by 3% each year, the loss of these new jobs to the city would cost the city an average of \$3 million per year once these jobs were fully situated. Again, it is also safe to say that this loss will have a similar ripple effect in the thousands of other employees who could be hired to serve the needs of the growing hospitals and research/development businesses—laundry services, transportation, construction, wholesale food sales, and others.

In summary, they therefore conservatively estimate that the proposed amendment will cost the City of St. Louis a minimum of \$14.3 million per year in direct general revenue—approximately 3.5% of the city's general revenue budget—and countless millions more in indirect revenue. According to officials, this is a loss that the city cannot tolerate in the face of rising costs and rising service needs.

As the Battelle Institute report stated in 2003, "If Missouri does not choose its 'fork in the road' consciously, deliberately, and with full knowledge of the consequences, it may take a fork that neither it nor its citizenry chooses. ...one fork may take Missouri to 21,000 additional well-paying jobs, \$7.2 billion in additional gross regional product, and more

than \$3.9 billion in real disposable income over the next decade. The other fork may not only cost the state these jobs, but, if the state and the private sector simply continue existing trends, it may also mean further significant job and economic losses in key life science industries such as drugs and pharmaceuticals and medical devices.”

A ban on SCNT will seriously harm the Missouri economy and its life science industry, in particular that industry in the City of St. Louis. The threat of such a ban has already caused harm in Kansas City, where the noted Stowers Institute has been unable to recruit the scientists necessary to carry out the Institute’s work. If the Institute expands in another state, Missouri will lose millions of dollars in economic benefit directly related to stem cell research that is not “human cloning.” Human cloning is currently banned by the Missouri Constitution. Opponents of stem cell research have falsely claimed that human cloning is not banned, because they also want to forbid promising medical procedures that require the copying of cells. However, the terminology, the concepts, and the distinction used in the Missouri Constitution are the same as used by America’s most respected doctors and scientists.

America’s most respected doctors and scientists believe that “reproductive cloning” should be banned, but that “therapeutic cloning” should be encouraged because it holds great medical promise to lead to cures for debilitating diseases—this is also the current philosophy espoused in the Missouri Constitution. In 2002, forty Nobel Prize Winners sent a letter to members of the U.S. Senate making this important distinction. Nobel Prize-winning Scientist Paul Berg has stated that “cloning humans and ‘therapeutic cloning’ are fundamentally different. The cloning of a human being should be prohibited. Therapeutic cloning, on the other hand, is meant to produce stem cells, not babies.” What the proposed amendment would ban is the same procedure that stem cell research opponents have tried unsuccessfully to ban in the legislature for the past five years. The passage of the “Stem Cell Amendment” in late 2006 ended the legislative battle. That battle has now moved to the voting booth with the proposal for this amendment.

In an effort to help quantify the economic impact of a new effort to undo Missouri’s constitutional research and cures protections, the Coalition for Plant and Life Sciences, the Center for Emerging Technologies, and the Nidus Center for Scientific Enterprise collaborated on a survey of St. Louis science and technology-based companies and St. Louis investment firms and organizations that specialize in investments with science-based companies. This survey sought to measure the potential impact of this new proposal.

Responses were received from eleven science and technology companies. The results, summarized below, clearly demonstrate that an overwhelming majority of the leaders of these companies would find the amendment to be a severe impediment to growing their companies in Missouri, that a majority of respondents would consider moving their companies out of Missouri if the amendment passes, and that a majority of respondents believe that the amendment would be perceived as an anti-research initiative that would make Missouri an unattractive location for the high growth science-based companies that have become a major part of the city’s bread and butter.

- 55% said the new amendment would make them less likely to keep their company in Missouri
- 45% said it would have no effect
- 0% said it would make them more likely to remain in Missouri
- 73% said the new amendment would make it more difficult to recruit scientists and other talent to Missouri
- 18% said it would have no effect
- 9% said it would make it easier to recruit scientists and other talent to Missouri
- 73% said the new amendment would make it more difficult to attract investors and capital to their company in Missouri
- 27% said it would have no effect
- 0% said it would make it easier to attract investors
- 73% said the new amendment would increase the pressure to relocate their company to another state
- 27% said it would have no effect
- 0% said it would decrease the pressure to relocate
- 73% said the new amendment would increase the likelihood that existing companies would avoid Missouri when considering whether to locate here
- 18% said it would help attract companies to Missouri
- 9% said it would have no effect
- 82% said the new amendment would make entrepreneurs considering starting a company in Missouri more likely to start their company in another state
- 18% said it would have no effect
- 0% said it would make entrepreneurs more likely to start their company in Missouri

The seven Missouri-based venture capital firm and investor organization respondents were unanimous in their agreement that this newly proposed amendment would harm Missouri's business climate by overturning our current protections for science and research.

- 100% said the new amendment would make it more difficult to relocate existing companies to Missouri
- 0% said it would be easier to relocate companies to Missouri
- 100% said the new amendment would make it more difficult to establish new companies in Missouri.
- 0% said it would be easier to establish companies in Missouri

It is important to note that none of the surveyed companies or investors is involved in stem cell research. That being the case, these results are evidence of the serious harm that this proposed amendment would wreak, not just on companies involved in stem cell research but on the wide variety of companies in Missouri that depend on scientific research for their survival and growth. Any threat to science of any type creates a chilling environment and negatively affects their business climate.

While it is not possible to quantify the results of this survey in terms of specific economic impact on the City of St. Louis, they believe these results clearly support the above assertions that if the amendment passes the city will lose both existing jobs and new opportunities, and as a result will lose, at a minimum, the \$14 million per year in revenue referenced above.

In summary, the negative impact on the amount of research and the consequential economic development emerging from the scientific research that would result from the proposed amendment would impact the City of St. Louis disproportionately: the city would suffer a very substantial reduction in scientific and medical activity and the sacrifice of significant future growth potential. As the chart above shows, medical research and treatment are extremely significant parts of St. Louis's current economy; as the CORTEX initiative and the Battelle report demonstrates, these economies are also very important parts of their future. As the survey results demonstrate, businesses involved in scientific research of all types and the businesses involved in raising capital for these research businesses would seriously question their futures in Missouri. Given the negative attitudes of businesses already ensconced in Missouri to the passage of this amendment, it is also obvious that businesses outside Missouri would have equally if not more strongly negative attitudes and would not locate in the City of St. Louis or Missouri.

Officials from **Hannibal School District #60** indicated that although they cannot know the extent of additional available funds, the passing of this petition could result in more funding to be distributed to public schools if not allowed to be used for abortion services, human cloning or prohibited human research.

Officials from **Rockwood R-VI School District** indicated there would be no fiscal affect on school districts resulting from this initiative petition.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact on their organization as a result of this initiative petition.

The **University of Missouri** indicated this amendment would effectively repeal the Stem Cell Amendment (Amendment 2 from 2006) and have a significant, negative chilling effect on education, research, and economic development across the University of Missouri (UM) System – at all four campuses and their academic health centers.

The proposed amendment, if passed, is projected to have a profound impact on the university's ability to grow and sustain its research operations and meet and exceed its

economic development goals. Critical to fulfilling the University of Missouri's mission as the state's public research university is the ability to recruit and retain top faculty researchers who will contribute to the research enterprise to the ultimate benefit of the state's economy. The perception that the state has a hostile attitude toward research, and thus to academic freedom, can have a dampening effect on recruitment and retention of faculty. This amendment would have a deleterious effect on faculty perceptions and a negative impact on the university's ability to conduct cutting edge research that will extend beyond the life sciences.

Competition nationwide to attract and retain research faculty is exceedingly high. Faculty members consider many factors when deciding whether to stay in current positions or to accept offers from other states, including: supportive environment for research, level of state and private support, institutional reputation, and availability of state-of-the-art research facilities. A study conducted in 2006 by the National Bureau of Economic Research demonstrated the importance of attracting and retaining "research stars". These research stars in turn attracted other research stars that would concentrate in the area - increasing the number of start-up firms and economic activity in the area. The stars and the surrounding start-up firms would generate additional patents and invention disclosures - spinning off economic development with resulting growth in jobs and transforming economic activity in the area. Thus this concentrated effort results in the "rich getting richer" by virtue of the interactive effects of new ideas generating other new ideas. The proposed amendment will seriously impact the university's ability to attract and retain the "stars."

In FY 2007, the University of Missouri generated \$240 million in research expenditures from funding to faculty researchers provided by federal and private sources. The funding primarily provides for the salaries of the researchers and their research staffs, supplies and equipment, and the administrative infrastructure that supports research. If one assumes that only half of the university's research funding, or \$120 million, is in jeopardy, the direct financial loss to the university would be significant. This loss would come from top researchers leaving the university to go to institutions where there is an open and supportive climate for research and academic freedom. The economic impact on the state would be even greater because recent economic analysis* indicates that every \$1.00 in research funding brought into the state generates almost \$2.00 in economic output and every \$1.0 million in research funding supports 17 jobs thus reducing economic output by \$240 million and impacting approximately 2000 jobs.

This amendment could also have an impact on the university's ability to support and grow commercialization of new technologies and the formation of new companies that result from the research. The university has a goal to increase revenues from patents and licenses from \$2.3 million in FY 2006 to approximately \$10 million in FY 2009. This amendment would jeopardize this growth in revenues that would be used by the university to reinvest in research and technology transfer operations and in economic development ventures that benefit the entire state such as the Discovery Ridge research park and the new life sciences incubator in Columbia and the Missouri University of Science and Technology Innovation Park in Rolla. A recent MERIC economic impact

analysis on Discovery Ridge indicated that continued investment in this project would yield an economic impact of \$33 million on the state's economy.

Finally, this amendment, if passed, could have a deleterious affect on the university's ability to continue to attract leading medical researchers and physicians to its medical schools and hospitals in Columbia and Kansas City. This would compromise the ability of the university's academic health centers to sustain high quality health care for citizens in the state and to continue to develop cutting edge treatments for the most life threatening medical conditions. This could result in the loss of patients to their hospitals and clinics as citizens of the state seek health care in other states. The fiscal impact of this is difficult to quantify.

*Kaufman, J., Kalaitzandonakes, N, and Johnson, T. "The Economic Role of the University of Missouri in the State. March 18, 2008.

The **University of Central Missouri** indicated no fiscal impact for their organization.

Officials from **Missouri State University** indicated zero impact for their organization as it does not conduct research in the areas identified in the petition.

Missouri Western State University indicated no impact.

Officials from **Northwest Missouri State University** determined that this measure would have no estimated costs or savings impact on their organization.

Truman State University indicated no fiscal impact on their organization.

Mr. Brad Ketcher of the Ketcher Law Firm, LLC provided fiscal impact information in opposition to the proposal which is summarized as follows:

STATE IMPACT

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
GSP Reduction	\$280m	\$403m	\$386m
Loss of Stowers Phase II State Tax Revenue	\$10.6m	\$15.3m	\$14.7m
Lose of Stowers Phase II (3.8% of GSP)			
GSP Reduction	\$1.7b	\$2.1b	\$2.5b
10% Chilling Effect on R&D State Tax Revenue	\$64.6m	\$79.8m	\$95m
10% Chilling Effect of R&D (3.8% of GSP)			

LOCAL GOVT IMPACT

KC Loss of Stowers Phase II Personal Income	<u>Annual</u> \$339k
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KC Loss of Stowers Phase II Earnings Tax	\$113k
KC Loss of Personal Income 10% Chilling Effect on R&D	\$154m
St. Louis Loss of Personal Income 10% Chilling Effect on R&D	\$331m
Boone Co. Loss of Personal Income	\$20m

Senator Joan Bray provided comments in opposition to this initiative petition under three categories: loss of Medicaid funds, loss of Title X funds, and cost of litigation. Below is a summary of her comments.

Senator Bray indicated that the proposed constitutional amendment jeopardizes Missouri's ability to claim or qualify for federal Medicaid funds. Under the Hyde amendment, a state that participates in the federal Medicaid program must provide coverage for beneficiaries' abortions in cases of rape, incest, and where a woman's life is endangered by her pregnancy. However, the proposed amendment, which contains no exception for rape, incest or life-endangerment, would bar Missouri from complying with this federal requirement. In fiscal year 2007, Missouri received approximately \$2.63 billion in federal Medicaid funds for MO HealthNet services. The proposed amendment puts the State of Missouri in the untenable position of having to violate its own Constitution or risk losing its federal Medicaid funds due to its non-compliance with federal requirements. When Medicaid expenses beyond MO HealthNet and administrative costs are factored in, the federal portion of Medicaid funds that would be jeopardized by this initiative are even larger than the \$2.63 billion for FY 2008 and \$2.9 billion for FY 2009.

Senator Bray further indicated the proposed amendment also jeopardizes Missouri's ability to participate in the federal program that subsidizes family planning services for low-income women, 42 U.S.C. Section 300 et seq (Title X) through its county health departments, because the proposed amendment imposes obligations on these county health departments that are inconsistent with the federal requirements for participation in the Title X program. In order to participate in the Title X program, health care providers must provide women who are determined to be pregnant with non-directive counseling about all of their options, including referrals for abortions upon request. The proposed amendment would bar Missouri county health departments from complying with this federal requirement, because it explicitly defines "abortion services" (as defined in Section 196.1127, RSMo) to include referrals for abortions. In FY 2007 Missouri county health departments received approximately \$300,000 in Title X funds to provide family planning services. If the county health departments are forced to stop participating in the Title X program because they cannot simultaneously obey the amended constitution and comply with requirements of Title X, it is likely that these Title X funds will be lost to Missouri altogether. In addition to the loss of approximately \$600,000 over two fiscal years, the loss of services to these patients, in turn, would have additional fiscal consequences for the state stemming from a likely increase in unplanned pregnancies.

Finally, given the conflict between the requirements of the proposed amendment and those of the federal Medicaid program, Senator Bray indicated that adopting the proposed amendment would undoubtedly lead to litigation. The costs of such litigation, which may include attorneys fees awarded against the state, constitute an additional fiscal impact.

The State Auditor's Office did not receive a response from the **Department of Agriculture, Department of Elementary and Secondary Education, the Department of Natural Resources, the State Treasurer's Office, Cole County, Greene County, Jackson County, St. Louis County, the City of Columbia, Cape Girardeau 63 School District, Metropolitan Community College, St. Louis Community College, Harris-Stowe State University, Lincoln University, Missouri Southern State University, Southeast Missouri State University, the Missouri Technology Corporation, and the Missouri Life Sciences Research Board.**

Fiscal Note Summary

This proposal could have a significant negative fiscal impact on state and local governmental entities by prohibiting the use of public funds for certain research activities. Federal grants to state governmental entities for research and medical assistance programs may be in jeopardy. The total costs to state and local governmental entities are unknown.